

Shaw Communications Inc. (SJR)

Updated November 4th, 2020 by Quinn Mohammed

Key Metrics

Current Price:	\$16.9	5 Year CAGR Estimate:	9.6%	Market Cap:	\$8.8B
Fair Value Price:	\$17.2	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/13/2020
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date:	11/27/2020
Dividend Yield:	5.4%	5 Year Price Target	\$22	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	7.8%

Overview & Current Events

Shaw Communications was founded in 1966 as the Capital Cable Television Company. It has since grown to become Western Canada's leading content and network provider, catering to both consumers and businesses. The company produces about \$4.2 billion USD in revenue annually and has a market capitalization of \$8.8 billion USD. The stock is listed in both Canada and the US.

Shaw reported fourth quarter and full year fiscal 2020 results on October 30th. Consolidated revenue for the fourth quarter was unchanged from last year at \$1.35 billion CAD. Adjusted EBITDA, on the other hand, increased 11.2% year-over-year to \$594 million CAD. Free cash flow rose by 262% to \$152 million CAD. Diluted EPS of \$0.34 CAD is slightly higher than \$0.32 reported last year.

For the full fiscal year 2020, Shaw's consolidated revenue increased 1.3% to \$5.41 billion CAD, while adjusted EBITDA increased 11% to \$2.39 billion. Adjusted EBITDA margins for 2020 were 44.2%, a significant increase from 40.3% in 2019. Free cash flow was higher by 39% year-over-year compared to 2019, coming in at \$747 million. This increase was mainly due to higher adjusted EBITDA and lower capital expenditures and interest. Diluted EPS was down slightly from last year, to \$1.01 USD.

The company's newest wireless offerings under the Shaw Mobile brand led to strong wireless results, and roughly 60,000 net additions. Fiscal 2020 wireless service revenue grew 17.4% to \$815 million CAD. ABPU rose 5.9% to \$44.13 and ARPU increased 2.7% YoY to \$38.95. Postpaid churn of 1.4% is higher than the 1.32% listed in fiscal 2019. This churn is higher during the fourth quarter, at 1.57% compared to 1.47% in 2019, largely linked to targeted competitive win-back offers in the Canadian telecom market.

At the end of fiscal 2020, net debt leverage stood at 2.3x compared to its target leverage range of 2.5x to 3.0x. The company provided fiscal 2021 guidance for adjusted EBITDA growth over fiscal 2020, capital investments of roughly \$1.0 billion and \$800 million of free cash flow.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.23	\$1.54	\$1.61	\$1.52	\$1.58	\$1.29	\$0.68	\$0.88	\$0.74	\$1.09	\$1.01	\$1.29
DPS	\$0.86	\$0.88	\$0.96	\$0.94	\$0.93	\$0.84	\$0.89	\$0.95	\$0.87	\$0.91	\$0.91	\$0.98
Shares¹	433	438	444	453	462	474	486	497	503	515	513	525

Shaw's earnings-per-share history is a bit lumpy and over the long run, it has not produced much in the way of growth. However, we are forecasting 5% earnings-per-share growth annually moving forward. These gains will come from continued revenue growth mostly, as well as the increasing margins Shaw is experiencing. Revenue gains will come from the company's growing user base as well as Shaw's ability to boost average revenue per user, as was the case in 2019 and 2020 with strong ABPU growth. Retail partnerships with Loblaws and Walmart – chains with huge amounts of foot traffic – should help Shaw in achieving their revenue growth rates in the coming years. While we are forecasting

¹ In millions

Disclosure: This analyst has no position in the security discussed in this research report and no plans to initiate one in the next 72 hours

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stronger growth than what Shaw has historically been able to produce, the company seems to have turned the corner. Fiscal 2020 has seen significant cost savings, which helped drive free cash flow to approximately \$572 million USD.

With recent years' dividends exceeding earnings, we believe management will be a bit more cautious with dividend increases in the next few years. However, Shaw's yield is reasonably high to make up for lower growth.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.3	13.5	12.5	14.2	14.0	15.9	27.4	24.9	18.9	18.3	16.7	17.0
Avg. Yld.	4.3%	4.3%	4.8%	4.4%	4.2%	4.1%	4.7%	4.3%	4.8%	4.6%	5.4%	4.5%

Shaw's valuation has moved around a lot in the past decade and today sits at 16.7 times our 2020 earnings-per-share estimate, a slightly lower valuation than The Big 3 (Robelus). While Shaw's valuation multiple has grown due to its entrance into the Canadian Wireless business, it still depends heavily on its consumer wireline business, so we estimate a fair value of 17 times earnings. That implies that Shaw is currently undervalued and should produce a 0.3% tailwind to total annual returns as a result. The yield should remain roughly in-line with today over the next coming years as the cash dividend has stagnated.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	70%	57%	60%	62%	59%	65%	131%	108%	118%	83%	90%	76%

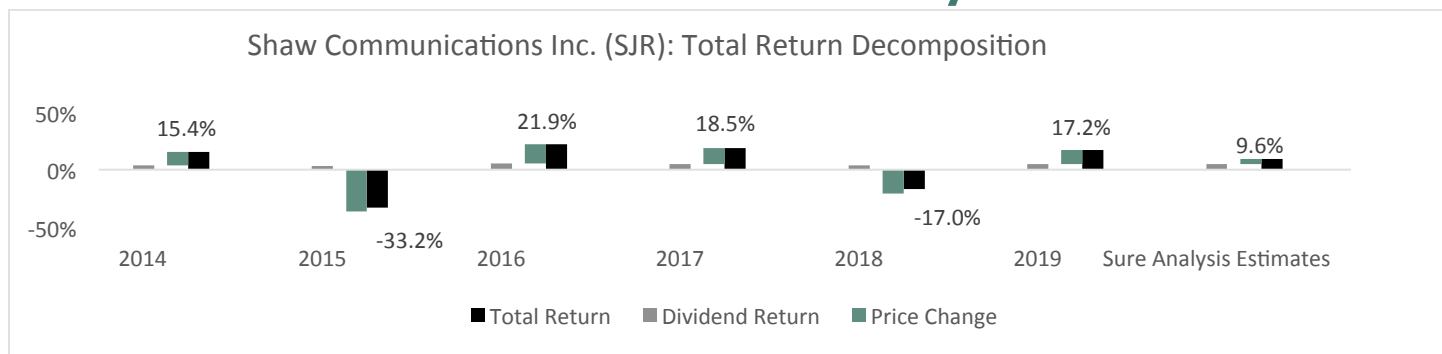
Shaw's quality metrics have stabilized after some meaningful declines in margins. We see margins as increasing slowly moving forward, congruent with the last few quarters. Debt has come down off much higher levels and today, Shaw's balance sheet leverage is quite low by telecommunications company standards. Interest coverage is good and while the payout ratio is high, we believe it will come down over time as earnings growth outpaces that of the payout.

Shaw's competitive advantage is in its leadership position in Western Canada, and its partnerships with Loblaw's and Walmart. We see these factors as driving growth for years to come. It is not immune to recession but telecom companies like Shaw tend to hold up very well, and this has been the case so far throughout the coronavirus impact.

Final Thoughts & Recommendation

Shaw is currently fully valued, despite its robust growth prospects and high yield. We see total annual returns of 9.6% in the coming years, consisting of a 5.4% yield and 4.5% in price change. While Shaw offers investors a high yield, there is valuation risk as it lacks a margin of safety. Income investors will enjoy the 5.4% yield paid monthly. We rate Shaw Communications a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3,556	4,792	4,951	5,089	4,867	3,720	3,406	3,696	4,060	4,028
Gross Profit	1,684	2,073	2,107	2,197	2,047	1,657	1,474	1,471	1,609	1,625
Gross Margin	47.3%	43.3%	42.6%	43.2%	42.1%	44.5%	43.3%	39.8%	39.6%	40.3%
Operating Profit	535	747	805	849	713	720	636	716	804	785
Operating Margin	1,056	1,330	1,307	1,352	1,336	940	841	756	807	842
Net Profit	29.7%	27.8%	26.4%	26.6%	27.5%	25.3%	24.7%	20.5%	19.9%	20.9%
Net Margin	510	456	721	738	796	710	920	644	31	551
Free Cash Flow	14.3%	9.5%	14.6%	14.5%	16.4%	19.1%	27.0%	17.4%	0.8%	13.7%
Income Tax	619	344	341	362	579	391	459	(84)	41	204

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	9,576	12,859	12,811	12,077	12,202	11,136	11,750	11,421	11,111	11,707
Cash & Equiv.	204	453	430	400	587	301	309	402	296	1,082
Accounts Rec.	185	453	439	470	466	353	229	227	235	277
Inventories	51	99	103	91	110	45	50	47	47	64
Goodwill	5,260	8,176	8,126	7,447	7,272	6,908	6,696	6,112	5,977	6,180
Total Liabilities	6,963	9,102	8,749	7,891	7,656	7,323	7,398	6,514	6,515	7,004
Accts. Payable	588	101	50	67	41	670	82	720	75	85
LT Debt	3,755	5,370	5,300	4,615	4,319	4,281	4,287	3,406	3,350	4,001
Sh. Equity	2,613	3,479	3,779	3,967	4,330	3,634	4,352	4,906	4,596	4,700
D/E Ratio	1.44	1.54	1.40	1.16	1.00	1.18	0.99	0.69	0.73	0.85

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	5.7%	4.1%	5.6%	5.9%	6.6%	6.1%	8.0%	5.6%	0.3%	4.8%
Return on Equity	20.8%	15.0%	19.9%	19.1%	19.2%	17.8%	23.0%	13.9%	0.6%	11.9%
ROIC	8.8%	5.9%	7.8%	8.1%	9.0%	8.4%	11.0%	7.6%	0.4%	6.6%
Shares Out.	433	438	444	453	462	474	486	497	503	515
Revenue/Share	8.20	10.99	11.20	11.31	10.60	7.90	7.08	7.51	8.07	7.88
FCF/Share	1.43	0.79	0.77	0.80	1.26	0.83	0.95	(0.17)	0.08	0.40

Note: All figures in millions of Canadian Dollars unless per share or indicated otherwise.

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