



Shaw Communications Inc. (SJR)

Updated January 27th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$17.2	5 Year CAGR Estimate:	9.5%	Market Cap:	\$8.8B
Fair Value Price:	\$17.9	5 Year Growth Estimate:	4.5%	Ex-Dividend Date:	02/14/2021
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	03/30/2021
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 first quarter results on January 13th. Consolidated revenues for the first quarter decreased 1% year-over-year, from \$1.38 billion CAD to \$1.37 billion. Adjusted EBITDA, however, increased 3.2% to \$607 million CAD. The adjusted EBITDA margin grew 420 basis points to 44.3%. The wireline adjusted EBITDA margin specifically increased to 50.4%, up 190 basis points. Free cash flow rose 23% to \$225 million CAD. Diluted EPS of \$0.31 CAD is identical to 1Q2020. In lieu of the COVID pandemic overhanging the economy, Shaw's results remain stable in uncertain times.

The company's wireless offerings under the Shaw Mobile brand led to strong wireless results, and a record 101,000 net additions. First quarter wireless service was higher by roughly 10% year-over-year. Fierce price competition resulted in an increased postpaid churn, from 1.5% to 1.8% at end of Q1.

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 repurchased approximately 6.5 million shares since the NCIB program began in November. The company reaffirms its previously 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.54	\$1.61	\$1.52	\$1.58	\$1.29	\$0.68	\$0.88	\$0.74	\$1.09	\$0.99	\$1.05	\$1.31
DPS	\$0.88	\$0.96	\$0.94	\$0.93	\$0.84	\$0.89	\$0.95	\$0.87	\$0.91	\$0.91	\$0.93	\$1.00
Shares¹	438	444	453	462	474	486	497	503	515	513	505.0	515.0

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 4.5% 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 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.

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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.5	12.5	14.2	14	15.9	27.4	24.9	18.9	18.3	17.6	16.4	17.0
Avg. Yld.	4.3%	4.8%	4.4%	4.2%	4.1%	4.7%	4.3%	4.8%	4.6%	5.1%	5.4%	4.5%

Shaw's valuation has moved around a lot in the past decade and today sits at 16.4 times our 2021 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 0.7% tailwind to total annual returns as a result. The yield should drop over the next coming years as the prices rises coupled with a stagnant dividend paid in CAD.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	57%	60%	62%	59%	65%	131%	108%	118%	83%	92%	89%	77%

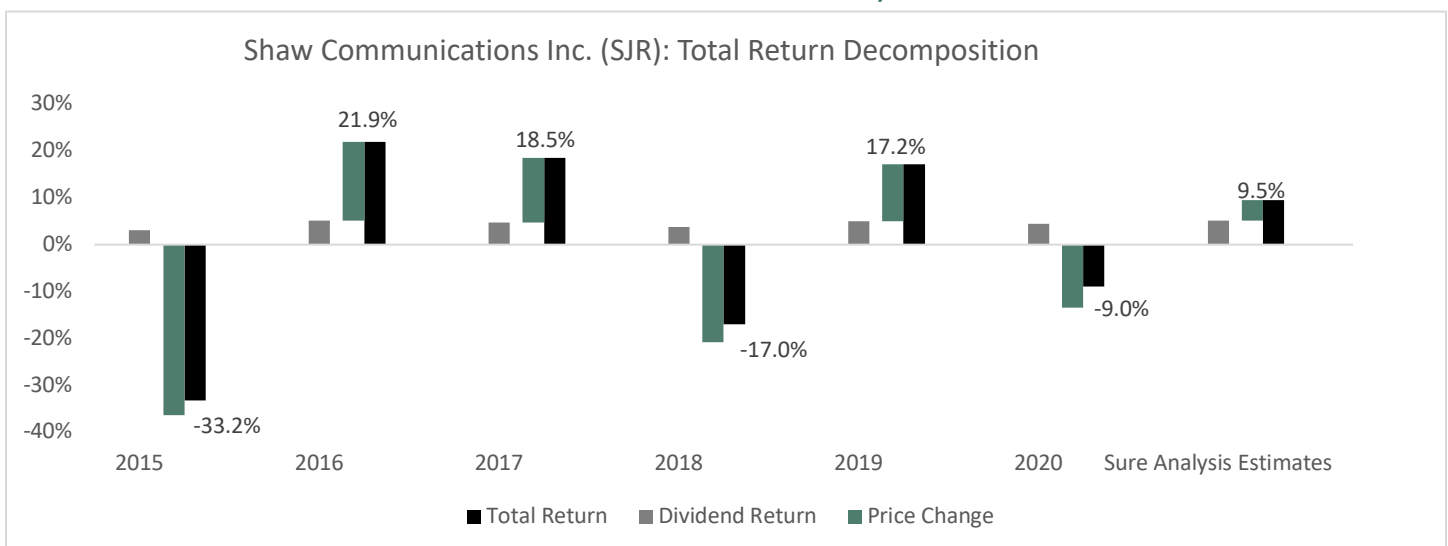
Shaw's quality metrics have stabilized after some meaningful declines in margins. We see margins as increasing slowly moving forward, congruent with the last few quarters. Debt has come down off much higher levels and today, Shaw's balance sheet leverage is quite low by telecommunications company standards. 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 9.5% in the coming years, consisting of a 5.4% yield and 4.1% 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	4,792	4,951	5,089	4,867	3,720	3,406	3,696	4,060	4,028	4021
Gross Profit	2,073	2,107	2,197	2,047	1,657	1,474	1,471	1,609	1,625	2257
Gross Margin	43.3%	42.6%	43.2%	42.1%	44.5%	43.3%	39.8%	39.6%	40.3%	56.1%
Operating Profit	747	805	849	713	720	636	716	804	785	907
Operating Margin	1,330	1,307	1,352	1,336	940	841	756	807	842	863
Net Profit	27.8%	26.4%	26.6%	27.5%	25.3%	24.7%	20.5%	19.9%	20.9%	21.5%
Net Margin	456	721	738	796	710	920	644	31	551	512
Free Cash Flow	9.5%	14.6%	14.5%	16.4%	19.1%	27.0%	17.4%	0.8%	13.7%	12.7%
Income Tax	344	341	362	579	391	459	(84)	41	204	572

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	12,859	12,811	12,077	12,202	11,136	11,750	11,421	11,111	11,707	12356
Cash & Equiv.	453	430	400	587	301	309	402	296	1,082	583
Accounts Rec.	453	439	470	466	353	229	227	235	277	249
Inventories	99	103	91	110	45	50	47	47	64	46
Goodwill	8,176	8,126	7,447	7,272	6,908	6,696	6,112	5,977	6,180	6327
Total Liabilities	9,102	8,749	7,891	7,656	7,323	7,398	6,514	6,515	7,004	7,592
Accts. Payable	101	50	67	41	670	82	720	75	85	63
LT Debt	5,370	5,300	4,615	4,319	4,281	4,287	3,406	3,350	4,001	3629
Sh. Equity	3,479	3,779	3,967	4,330	3,634	4,352	4,906	4,596	4,700	4764
D/E Ratio	1.54	1.40	1.16	1.00	1.18	0.99	0.69	0.73	0.85	0.76

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.1%	5.6%	5.9%	6.6%	6.1%	8.0%	5.6%	0.3%	4.8%	4.3%
Return on Equity	15.0%	19.9%	19.1%	19.2%	17.8%	23.0%	13.9%	0.6%	11.9%	10.8%
ROIC	5.9%	7.8%	8.1%	9.0%	8.4%	11.0%	7.6%	0.4%	6.6%	6.0%
Shares Out.	438	444	453	462	474	486	497	503	515	513
Revenue/Share	10.99	11.20	11.31	10.60	7.90	7.08	7.51	8.07	7.88	7.81
FCF/Share	0.79	0.77	0.80	1.26	0.83	0.95	(0.17)	0.08	0.40	1.11

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

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