



# Shaw Communications Inc. (SJR)

Updated April 19<sup>th</sup>, 2021 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$28	<b>5 Year CAGR Estimate:</b>	0.3%	<b>Market Cap:</b>	\$13.4B
<b>Fair Value Price:</b>	\$19	<b>5 Year Growth Estimate:</b>	4.5%	<b>Ex-Dividend Date:</b>	06/15/2021
<b>% Fair Value:</b>	148%	<b>5 Year Valuation Multiple Estimate:</b>	-7.6%	<b>Dividend Payment Date:</b>	06/29/2021
<b>Dividend Yield:</b>	3.3%	<b>5 Year Price Target</b>	\$24	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	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 second quarter results on April 14<sup>th</sup>. Consolidated revenues for the second quarter increased 1.8% to \$1.39 billion CAD. Adjusted EBITDA increased 6.2% to \$637 million CAD. Net income for the corporation grew 30% to \$217 million CAD. Diluted earnings per share of \$0.43 CAD has grown 34% over last year. For the first half of 2021, diluted EPS has grown 17% over last year.

The company's wireless offerings under the Shaw Mobile brand led to strong wireless results, and a strong 75,100 net additions. Second quarter wireless service was higher by roughly 8.5% year-over-year due to subscriber growth. Wireless postpaid churn rate of 1.25% was a 32 basis point improvement over the prior year.

In the quarter, a significant announcement was made, that Shaw agreed to be fully acquired by Rogers in a deal valued at roughly \$26 billion CAD. The offer to shareholders is \$40.50 CAD per share in cash (\$32.32 USD), which was a significant premium to the price it was trading on the public market. Brad Shaw, CEO of Shaw, claims that the significant investments required to fully capitalize on 5G would require the combined abilities of Rogers and Shaw. This combined entity will be able to close the gap in rural, remote, and Indigenous communities and deliver new technology for consumers and businesses. The transaction has yet to be approved by the shareholders and the appropriate regulatory bodies. It is possible the deal could be flagged as highly anti-competitive due to the small amount of telecommunications company operating in Canada.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$1.54	\$1.61	\$1.52	\$1.58	\$1.29	\$0.68	\$0.88	\$0.74	\$1.09	\$0.99	<b>\$1.11</b>	<b>\$1.38</b>
<b>DPS</b>	\$0.88	\$0.96	\$0.94	\$0.93	\$0.84	\$0.89	\$0.95	\$0.87	\$0.91	\$0.91	<b>\$0.93</b>	<b>\$1.00</b>
<b>Shares<sup>1</sup></b>	438	444	453	462	474	486	497	503	515	513	<b>505.0</b>	<b>515.0</b>

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.

<sup>1</sup> In millions

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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	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	25.2	17.0
Avg. Yld.	4.3%	4.8%	4.4%	4.2%	4.1%	4.7%	4.3%	4.8%	4.6%	5.1%	3.3%	4.3%

Shaw's valuation has moved around a lot in the past decade and today sits at 25.2 times our 2021 earnings-per-share estimate, a much higher 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. The reason Shaw is trading at such a high multiple right now is due to the acquisition offer from Rogers. In fact, we estimate a 7.6% valuation contraction if the company traded at our fair value estimate of 17 times earnings.

## 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%	84%	72%

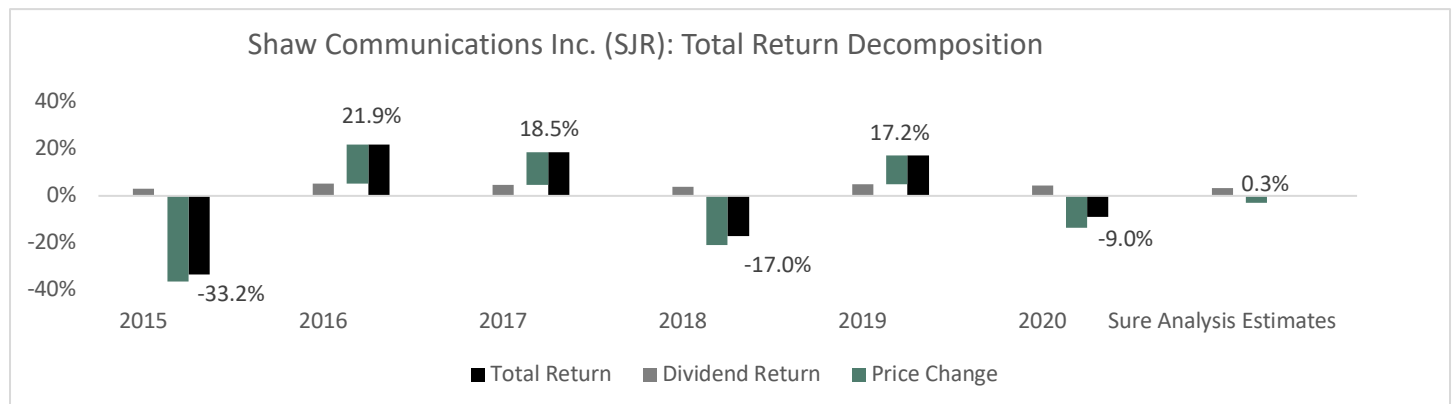
Shaw's quality metrics have stabilized after some meaningful declines in margins. We see margins as increasing slowly moving forward, congruent with the last few quarters. Debt has come down off much higher levels and today, Shaw's balance sheet leverage is quite low by telecommunications company standards. 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 Loblaws 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 overvalued, entirely due to the Rogers offer which the company will trade around until more clarity about the deal is provided, such as approvals. We see total annual returns of 0.3% in the coming years, consisting of a 3.3% yield and a drop in share price due to a 7.6% valuation contraction. Income investors will enjoy the 3.3% yield paid monthly. We rate Shaw Communications a sell at this time due to the high valuation and the risks surrounding the acquisition transaction. However, shares trade 14% under the offer price and so there is a decent arbitrage opportunity for those with confidence in the agreement.

## 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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