



Shaw Communications Inc. (SJR)

Updated July 19th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$28	5 Year CAGR Estimate:	2.7%	Market Cap:	\$14.2 B
Fair Value Price:	\$22	5 Year Growth Estimate:	4.5%	Ex-Dividend Date:	08/15/2021
% Fair Value:	129%	5 Year Valuation Multiple Estimate:	-4.9%	Dividend Payment Date:	08/29/2021
Dividend Yield:	3.3%	5 Year Price Target	\$28	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	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 \$14.2 billion USD. The stock is listed in both Canada and the US.

Shaw reported third quarter results on June 30th. Consolidated revenues for the second quarter increased by 4.8% to \$1.38 billion CAD. Adjusted EBITDA increased 5.4% year-over-year to \$642 million CAD. Net income for the corporation grew 92.4% to \$354 million. Diluted earnings per share of \$0.70 CAD doubled compared to the \$0.35 earned in the same prior year period. For the first nine months of 2021, diluted EPS has grown 47% over last year.

The company's wireless offerings under the Shaw Mobile brand led to strong wireless results, and a strong 46,600 net additions. Second quarter wireless service was higher by roughly 9.2 % year-over-year due to subscriber growth. Wireless postpaid churn rate of 1.07% was an 18 basis point improvement over the prior quarter.

On March 15th, 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 been approved by the shareholders however there remains pending approvals from 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
EPS	\$1.54	\$1.61	\$1.52	\$1.58	\$1.29	\$0.68	\$0.88	\$0.74	\$1.09	\$0.99	\$1.30	\$1.62
DPS	\$0.88	\$0.96	\$0.94	\$0.93	\$0.84	\$0.89	\$0.95	\$0.87	\$0.91	\$0.91	\$0.94	\$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.

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.



Shaw Communications Inc. (SJR)

Updated July 19th, 2021 by Quinn Mohammed

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	21.8	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%	3.6%

Shaw's valuation has moved around a lot in the past decade and today sits at 21.8 times our 2021 earnings-per-share estimate, which is generally in-line with the valuation of 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 4.9% 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%	72%	62%

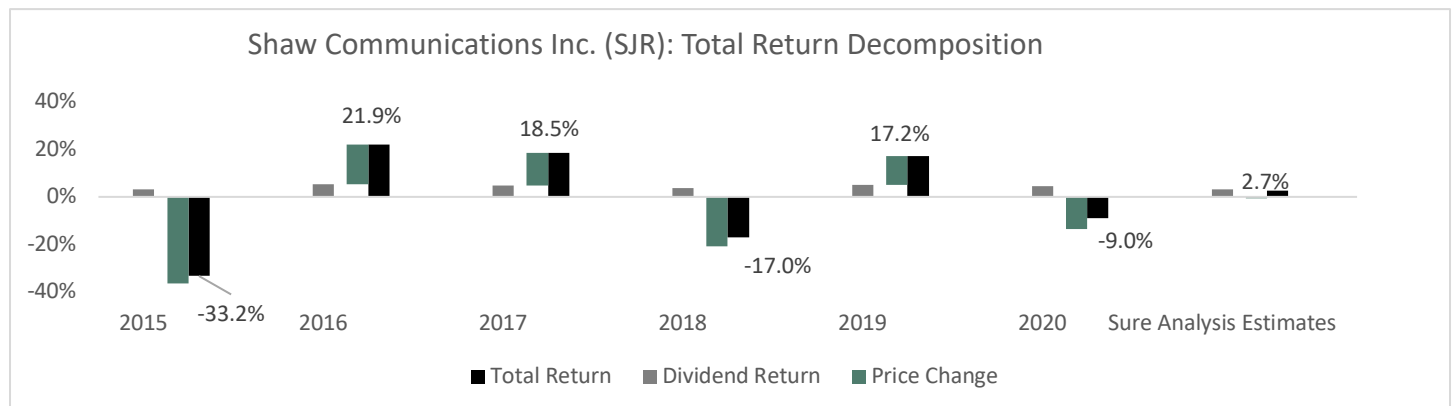
Shaw's quality metrics have stabilized after some meaningful declines in margins. We see margins as increasing slowly moving forward, congruent with the last few quarters. Debt has come down off much higher levels and today, Shaw's balance sheet leverage is quite low by telecommunications company standards. 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 2.7% in the coming years, consisting of a 3.3% yield and a drop in share price due to a 4.9% 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 12% under the offer price and so there is a decent arbitrage opportunity for those with confidence in the agreement.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Shaw Communications Inc. (SJR)

Updated July 19th, 2021 by Quinn Mohammed

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	4,021
Gross Profit	2,073	2,107	2,197	2,047	1,657	1,474	1,471	1,609	1,625	2,257
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	12,356
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	6,327
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	3,629
Sh. Equity	3,479	3,779	3,967	4,330	3,634	4,352	4,906	4,596	4,700	4,764
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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.