Shaw Communications Inc. (SJR)

Updated July 4th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$30	**5 Year CAGR Estimate:**	1.3%	**Market Cap:**	$15 B
Fair Value Price:	$22	**5 Year Growth Estimate:**	4.5%	**Ex-Dividend Date:**	07/14/2022
% Fair Value:	137%	**5 Year Valuation Multiple Estimate:**	-6.2%	**Dividend Payment Date:**	07/28/2022
Dividend Yield:	3.1%	**5 Year Price Target**	$27	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**Rating:**	Sell

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 $4.3 billion USD in revenue annually and has a market capitalization of $15 billion USD. The stock is listed in both Canada and the US.

On March 15th, 2021, 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 ($31.47 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. The transaction has been approved by the shareholders and the CRTC, however there remains pending approvals from the Competition Bureau and ISED. It is possible the deal could be flagged as highly anti-competitive due to the small amount of telecommunications company operating in Canada.

On June 17th, 2022, Shaw announced a divestiture agreement to sell Freedom Mobile to Quebecor for $2.85 billion, which is also subject to regulatory approvals. This divestiture will improve the chances for the remaining necessary approvals of the Rogers-Shaw transaction.

Shaw reported third quarter fiscal 2022 results on June 30th. Consolidated revenues for the third quarter decreased by 2% to $1.35 billion CAD. Adjusted EBITDA increased 0.3% to $644 million CAD. Net income for the corporation decreased nearly 43% to $203 million. Diluted earnings per share of $0.41 was a decrease compared to the $0.70 earned in the same prior year period. Wireless postpaid net additions were down year-over-year in the quarter at roughly 19,400, due to increased wireless competition and a limited supply of key devices. Wireless service revenue was higher by roughly 8.9% year-over-year due to the larger subscriber base compared to a year ago.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.61	$1.52	$1.58	$1.29	$0.68	$0.88	$0.74	$1.09	$0.99	$1.57	***$1.24***	***$1.55***
DPS	$0.96	$0.94	$0.93	$0.84	$0.89	$0.95	$0.87	$0.91	$0.91	$0.95	***$0.92***	***$0.99***
Shares[1]	444	453	462	474	486	497	503	515	513	500	***499.0***	***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 the last few years with strong ABPU growth. Retail partnerships with Loblaws and Walmart – chains with huge amounts of foot traffic – will also 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.

[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.

Fiscal 2020 and 2021 has seen significant cost savings, which helped drive free cash flow to approximately $768 million USD in 2021.

With some years' dividends exceeding earnings in the last decade, we believe management will be a bit more cautious with dividend increases in the next few years. Shaw's yield is reasonably high to make up for lower growth, though it's come down due to the increased price as a result of the Rogers bid. In fiscal 2022, the company is prioritizing the closure of the transaction with Rogers.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.5	14.2	14	15.9	27.4	24.9	18.9	18.3	17.6	16.8	***24.0***	***17.5***
Avg. Yld.	4.8%	4.4%	4.2%	4.1%	4.7%	4.3%	4.8%	4.6%	5.1%	3.6%	***3.1%***	***3.7%***

Shaw's valuation has moved around a lot in the past decade and today sits at 24.0 times our 2022 earnings-per-share estimate, which is high relative to its historical average. While Shaw's valuation multiple has grown due to its entrance into the Canadian Wireless business, it still depends on its consumer wireline business, so we estimate a fair value of 17.5 times earnings. The reason Shaw is trading at such a high multiple is due to the acquisition offer from Rogers. In fact, we estimate a 6.2% valuation contraction if the company traded at our fair value estimate of 17.5 times earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	60%	62%	59%	65%	131%	108%	118%	83%	92%	61%	***74%***	***64%***

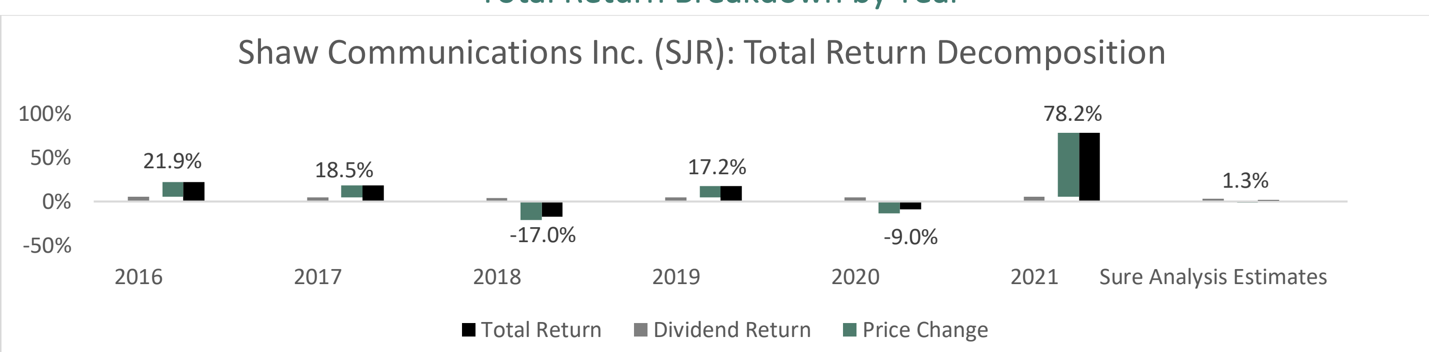
Shaw's quality metrics have stabilized after some meaningful declines in margins. We see margins as increasing slowly moving forward, congruent with the last two years. Debt has come down off much higher levels and today, Shaw's balance sheet leverage is quite low by telecommunications company standards. 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 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 1.3% in the coming years, consisting of a 3.1% yield, 4.5% annual earnings growth and an estimated drop in share price due to a 6.2% valuation contraction. We rate Shaw Communications a sell at this time due to the high valuation and the acquisition premium already being mostly priced in.

Total Return Breakdown by Year



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Shaw Communications Inc. (SJR)

Updated April 19th, 2022 by Quinn Mohammed

Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,951	5,089	4,867	3,720	3,406	3,696	4,060	4,028	4,021	4,343
Gross Profit	2,934	3,088	2,924	2,314	2,059	2,121	2,167	2,132	2,257	2,483
Gross Margin	59.3%	60.7%	60.1%	62.2%	60.4%	57.4%	53.4%	52.9%	56.1%	57.2%
Operating Profit	1,307	1,352	1,336	940	841	756	459	849	863	999
Operating Margin	26.4%	26.6%	27.5%	25.3%	24.7%	20.5%	11.3%	21.1%	21.5%	23.0%
Net Profit	721	738	796	710	920	644	31	551	512	777
Net Margin	14.6%	14.5%	16.4%	19.1%	27.0%	17.4%	0.8%	13.7%	12.7%	17.9%
Free Cash Flow	341	362	579	391	459	-84	41	204	572	714
Income Tax	212	280	286	181	134	137	100	89	133	36

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	12,811	12,077	12,202	11,136	11,750	11,421	11,111	11,707	12,356	12,521
Cash & Equivalents	430	400	587	301	309	402	296	1,082	583	281
Accounts Receivable	439	470	466	353	229	227	235	251	249	287
Inventories	103	91	110	45	50	47	47	64	46	50
Goodwill & Int. Ass.	8,126	7,447	7,272	6,908	6,696	6,112	5,977	6,180	6,327	6,562
Total Liabilities	8,749	7,891	7,656	7,323	7,398	6,514	6,515	7,004	7,592	7,730
Accounts Payable	50	67	41	670	82	720	75	85	63	89
Long-Term Debt	5,300	4,615	4,319	4,281	4,287	3,406	3,350	4,001	3,629	3,766
Shareholder's Equity	3,779	3,967	4,330	3,634	4,352	4,906	4,596	4,481	4,540	4,791
D/E Ratio	1.40	1.16	1.00	1.18	0.99	0.69	0.73	0.85	0.76	0.79

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.6%	5.9%	6.6%	6.1%	8.0%	5.6%	0.3%	4.8%	4.3%	6.2%
Return on Equity	19.9%	19.1%	19.2%	17.8%	23.0%	13.9%	0.6%	12.1%	11.3%	16.7%
ROIC	7.8%	8.1%	9.0%	8.4%	11.0%	7.6%	0.4%	6.6%	6.0%	9.2%
Shares Out.	444	453	462	474	486	497	503	515	513	500
Revenue/Share	11.20	11.31	10.60	7.90	7.08	7.51	8.07	7.88	7.81	8.60
FCF/Share	0.77	0.80	1.26	0.83	0.95	-0.17	0.08	0.40	1.11	1.41

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