



Shaw Communications Inc. (SJR)

Updated March 13th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	1.7%	Market Cap:	\$14 B
Fair Value Price:	\$19	5 Year Growth Estimate:	6.5%	Ex-Dividend Date:	03/14/2023
% Fair Value:	147%	5 Year Valuation Multiple Estimate:	-7.5%	Dividend Payment Date:	03/30/2023
Dividend Yield:	3.0%	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 \$4.1 billion USD in revenue annually and has a market capitalization of \$14 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 a pending approval from Innovation, Science and Economic Development Canada (ISED). It is possible the deal could be flagged as 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 is expected to improve the chances for the remaining necessary approvals of the Rogers-Shaw transaction.

Shaw reported first quarter fiscal 2023 results on January 12th, 2023. Consolidated revenues for the first quarter decreased by 1.2% to \$1.37 billion CAD. Adjusted EBITDA decreased 2.5% to \$617 million CAD. Net income for the corporation decreased 14% to \$168 million.

Wireless postpaid net additions were only 1,500 in the quarter, and wireless postpaid churn increased by 19 bps to 1.89%. Wireless service revenue grew by 4% year-over-year due to the larger subscriber base compared to a year ago.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.52	\$1.58	\$1.29	\$0.68	\$0.88	\$0.74	\$1.09	\$0.99	\$1.57	\$1.14	\$1.08	\$1.48
DPS	\$0.94	\$0.93	\$0.84	\$0.89	\$0.95	\$0.87	\$0.91	\$0.91	\$0.95	\$0.84	\$0.87	\$0.94
Shares¹	453	462	474	486	497	503	515	513	500	501	500.0	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 6.5% 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 in its wireless segment. 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, however that saw a decrease in 2022. 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

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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.

The company is prioritizing the closure of the transaction with Rogers. However, while the original closing date of the deal has been reached, the company continues to extend the closing date, now scheduled for March 31st, 2023, and Rogers still does not have approval from ISSED.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.2	14	15.9	27.4	24.9	18.9	18.3	17.6	16.8	19.4	26.5	18.0
Avg. Yld.	4.4%	4.2%	4.1%	4.7%	4.3%	4.8%	4.6%	5.1%	3.6%	3.1%	3.0%	3.5%

Shaw's valuation has moved around a lot in the past decade and today sits at 26.5 times our 2023 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 18.0 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 7.5% valuation contraction if the company traded at our fair value estimate of 18.0 times earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	62%	59%	65%	131%	108%	118%	83%	92%	61%	74%	81%	63%

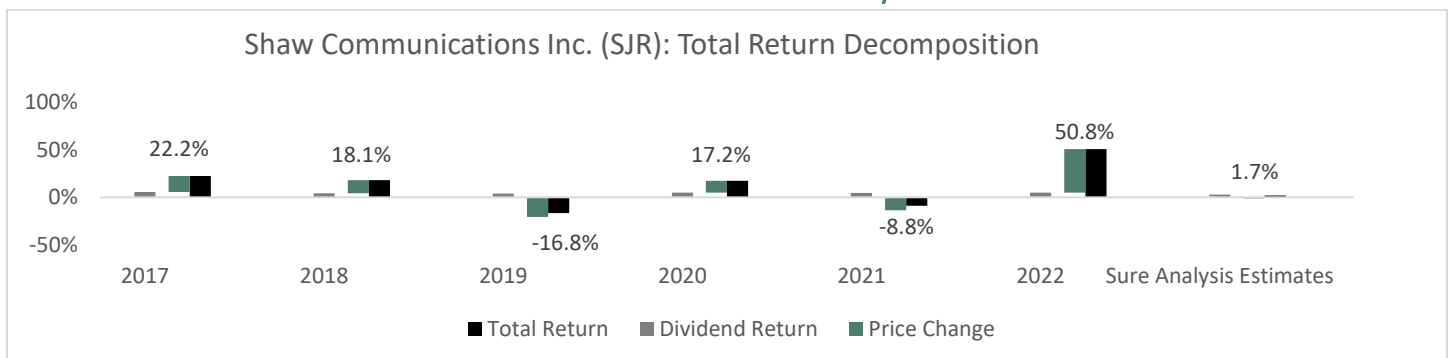
Shaw's quality metrics have stabilized after some meaningful declines in margins. We see margins as increasing slowly moving forward, congruent with the previous three years. Debt has come down off much higher levels and today, Shaw's balance sheet leverage is fairly low by telecommunications company 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 was the case throughout the coronavirus impact.

Final Thoughts & Recommendation

Shaw is currently overvalued due to the Rogers offer, which the company will trade around until the deal is finally approved or blocked. We see total annual returns of 1.7% in the coming years, consisting of a 3.0% yield, 6.5% annual earnings growth and an estimated drop in the share price due to a 7.5% 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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5,089	4,867	3,720	3,406	3,696	4,060	4,028	4,021	4,343	4281
Gross Profit	3,088	2,924	2,314	2,059	2,121	2,167	2,132	2,257	2,483	2516
Gross Margin	60.7%	60.1%	62.2%	60.4%	57.4%	53.4%	52.9%	56.1%	57.2%	58.8%
Operating Profit	1,352	1,336	940	841	756	459	849	863	999	1027
Operating Margin	26.6%	27.5%	25.3%	24.7%	20.5%	11.3%	21.1%	21.5%	23.0%	24.0%
Net Profit	738	796	710	920	644	31	551	512	777	600
Net Margin	14.5%	16.4%	19.1%	27.0%	17.4%	0.8%	13.7%	12.7%	17.9%	14.0%
Free Cash Flow	362	579	391	459	-84	41	204	572	714	578
Income Tax	280	286	181	134	137	100	89	133	36	202

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	12,077	12,202	11,136	11,750	11,421	11,111	11,707	12,356	12,521	12042
Cash & Equivalents	400	587	301	309	402	296	1,082	583	281	322
Accounts Receivable	470	466	353	229	227	235	251	249	287	276
Inventories	91	110	45	50	47	47	64	46	50	70
Goodwill & Int. Ass.	7,447	7,272	6,908	6,696	6,112	5,977	6,180	6,327	6,562	6322
Total Liabilities	7,891	7,656	7,323	7,398	6,514	6,515	7,004	7,592	7,730	7279
Accounts Payable	67	41	670	82	720	75	85	63	89	102
Long-Term Debt	4,615	4,319	4,281	4,287	3,406	3,350	4,001	3,629	3,766	3630
Shareholder's Equity	3,967	4,330	3,634	4,352	4,906	4,596	4,481	4,540	4,791	4763
D/E Ratio	1.16	1.00	1.18	0.99	0.69	0.73	0.85	0.76	0.79	0.76

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.9%	6.6%	6.1%	8.0%	5.6%	0.3%	4.8%	4.3%	6.2%	4.9%
Return on Equity	19.1%	19.2%	17.8%	23.0%	13.9%	0.6%	12.1%	11.3%	16.7%	12.6%
ROIC	8.1%	9.0%	8.4%	11.0%	7.6%	0.4%	6.6%	6.0%	9.2%	7.1%
Shares Out.	453	462	474	486	497	503	515	513	500	501
Revenue/Share	11.31	10.60	7.90	7.08	7.51	8.07	7.88	7.81	8.60	8.55
FCF/Share	0.80	1.26	0.83	0.95	-0.17	0.08	0.40	1.11	1.41	1.15

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

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