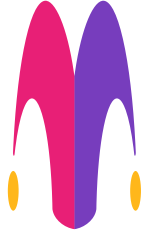

A Deeper Look at Rogers’ Third Quarter Earnings

Description

by Gaurav Seetharam

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The third quarter earnings of Rogers Communications (TSX:RCI.B, NYSE:RCI), announced on Thursday, met chilly reception from shareholders. Shares opened at $46.41, down 1.4% from its previous close of $47.08, and eventually ended the day at $45.83. Lower sales revenue, particularly in the wireless segment, drove the stock until analysts had a chance to consider the long term implications of Rogers’ new pricing strategy.

Behind the wireless numbers
The company introduced a lower price point on wireless roaming for U.S. and international travelers. Offering greater value to consumers is a strategic play for more subscribers, potentially causing damage to the bottom line. Compared to the same period last year, network revenue dropped 1% from $1.744 billion to $1.726 billion.

This is where data becomes subjective. Most analysts go straight to the ‘hard numbers’, see either an increase or decrease, and don’t bother looking at the driving forces behind the numbers. But investing is not about numbers on a piece of paper, it’s about what the events underlying the numbers. So let’s go back to basics: a pricing strategy is meant to widen the pool of customers by momentarily hurting your profit margin.

If you ignored the decline in roaming revenues, wireless sales actually increased 1%, led in part by a 22% increase in data usage. The total number of post-paid subscribers – the core clientele for a wireless company – also increased 359,000 this quarter. A lot can be attributed to the simplified share-everything plans that package together a bunch of wireless services in the hopes that consumers will use more of everything. But it's also because internet browsing on smartphones is so reflexive that offering a deal on one service has a spillover effect. About 73% of the subscriber base are smartphone users, relative to the 65% that were last year. The quarterly report found that "smartphone subscribers typically generate significantly higher ARPU (Average Revenue per Post Paid User), are less likely to churn and more likely to commit to term contracts than non-smartphone subscribers." Obviously, the management team at Rogers are in this one for the long haul.

Lower television revenue

Here's one area where I see a little hope for Rogers. Revenue was down 3% as a result of "the year-over year decline in television subscribers". A tectonic shift in the media landscape has been underway for some time now. First, it was the internet becoming an alternate source of entertainment to the television, then it became an alternate route to the same content (digital revenues for Rogers rose 18% this quarter, and soon it'll entirely eclipse traditional cable TV. If that sounds farfetched, take a look at a look at my fellow Fool Demitrios Kalogeropoulos's breakdown of Netflix's subscriber growth in Canada [G.S.1] . Or Doug Ehrman's take on Google Fiber and the future of cable[G.S.2] .

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I should clarify that I don't think that Rogers should be overly threatened by Google Fiber. However, it is becoming clear that the standard a model for telecommunication companies is antiquated. Innovation will have to occur on both the technological and business fronts for a company to succeed in this business. So, when investors look to Rogers' third quarter earnings, they should keep in mind that the company (really the whole industry!) is entering an evolutionary phase.

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Disclosure: Gaurav Seetharam does not own shares of Rogers Communication.

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1. NYSE:RCI (Rogers Communications Inc.)
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