After an Ugly Week, Is Rogers Communications a Buy?

Description

During this past week, **Rogers Communications** (TSX: RCI.B)(NYSE: RCI) lost nearly 5.0% of its value. In 2013, its stock gained just 5%, three percentage points less than the **S&P/TSX Composite Index** (TSX: ^OSPTX). And so far this year, Rogers is down just over 11%.

Established by Ted Rogers in 1960, the company has grown into a media and communications powerhouse active in wireless, cable, internet, home phone, media, and sports. Despite the breadth of services, the wireless business drives its fortunes — accounting for nearly 60% of revenue and 70% of earnings before interest, taxes, depreciation, and amortization, or EBITDA.

With the recent sell-off, is now a good time to consider purchasing stock, or does Rogers have further to fall? Or maybe it's best just to steer clear. Let's take a look at three key issues driving Rogers' performance

Not everyone likes surprises

Unlike kids at Christmas time, investors and financial analysts do not like surprises. Unfortunately, that's what they've received lately from Rogers.

Rogers reported earnings per share, total earnings or net income divided by shares outstanding, which missed analysts' expectations by about 7% during each of the last two quarters. In fact, Rogers hasn't exceeded expectations on earnings for over a year. Until management can meet, and exceed, earnings expectations consistently, it's unlikely its share price will make any meaningful gains.

Wireless customers are disconnecting

During the first quarter, Rogers added 369,000 new wireless customers, 68,000 fewer than the first quarter of 2013. And when you take into account customer departures, Rogers actually ended the first quarter with 71,000 fewer customers than it had at the beginning of the period.

Even more concerning is the reduction in average revenue per user which declined more than 3% during Rogers most recent quarter. Customers incurred lower roaming fees, and opted for simplified pricing plans that lowered their overall costs by including items like voice-mail and caller ID at a discount.

No quick fixes

Guy Laurence, the newly appointed President and Chief Executive Officer of Rogers has completed his meetings with various stakeholders, and is expected to present his plan for improving the company's fortunes in the next month.

However, early indications are that there are no "quick fixes" and measures required to improve customer satisfaction and reduce defections will require patience and long-term structural change.

Foolish bottom line

Many investors are attracted to Rogers Communications attractive dividend yield of 4.2%. However, improving customer satisfaction is key to lowering defections, increasing average revenue per wireless customer and pushing the stock price higher. Unfortunately for Rogers, it takes a great deal of time to make meaningful and sustained changes in the area of customer satisfaction. And without it, price discounting and incentives are what a company must do to attract new clients, and keep existing customers.

CATEGORY

1. Investing

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1. NYSE:RCI (Rogers Communications Inc.)
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