1 Communications Stock to Buy and 1 to Avoid

Description

A sure-fire way of identifying investment opportunities is to simply observe your surroundings. What are people using and consuming, and which companies are well positioned to meet those needs over the next five to 10 years?

It seems that nearly everyone in Canada has a smartphone — at least it sure feels that way every time I ride the subway or wait in line at the bank. In fact, according to comScore, more than 17 million Canadians own a smartphone, with users consuming more data every day.

Of course, Canada's national communications companies have their own list of challenges. For one, the upcoming wireless spectrum auction is sure to be an important milestone in the federal government's relentless drive to introduce greater competition into the wireless industry. This is in addition to the various disruptive technologies and new business models that are competing with traditional cable television, including **Netflix** (Nasdaq: NFLX) and Hulu.

Communication and media companies are an important component of the TSX, so it makes sense for an investor to have at least one stock as part of a diversified portfolio. With that in mind, let's take a look at the case for one company to buy, and one to avoid.

The case for Telus

For **Telus** (TSX: T)(NYSE: TU), its customers, and most importantly its investors, the future looks very friendly indeed.

No company, excluding monopolies of course, can achieve exceptional financial performance and deliver a market-beating stock performance without satisfied customers. Telus ranked as the top national full-service wireless carrier by J.D. Power and Associates in 2013, and slipped slightly to second place behind SaskTel in the 2014 survey.

That commitment to customer satisfaction is evident in the organization's financial and operational performance. Telus enjoyed a very strong first quarter — its revenue increased 5% to $2.9 billion, and reported earnings per share increased 9%.

Unlike many of its rivals, its customers are staying put and spending more. It has one of the lowest postpaid churn rates in North America at just 0.99%, and its average revenue per user, or ARPU, grew 2% over the same period a year earlier, to $61.24 per month.

Wireline customers are loving Telus as well, including its new technology. Its TV subscriber base is up 18% from the first quarter of 2013, while high-speed internet connections grew 5.5% to 1.4 million. Its significant investment in broadband technology is paying off, in particular its Optik TV service.

So far this year, the company's stock is up just over 5%, with a trailing earnings per share ratio of 18.9. Telus releases its second-quarter results August 7.

The case against Rogers Communications

Unfortunately for **Rogers Communications** (TSX: RCI.B)(NYSE: RCI) and its current investors, creating a culture that delivers an amazing customer experience is incredibly difficult to achieve — something that Guy Laurence, President and Chief Executive Officer of Rogers, has been hired to do.

However, customers, who usually have less patience than investors, are disconnecting from Rogers. The company ended the first quarter with 71,000 fewer customers than it had at the beginning of the period. Also, they are spending less — Rogers Communications saw its ARPU decline 3.1% in the first quarter.

Mr. Laurence's plan to turn around the company's fortunes, called "Rogers 3.0", includes executive departures and new roles for the son and daughter of the company's late founder, Ted Rogers. The recently announced plan also features a separate consumer unit. All customer experience functions, including customer care call centres, field operations, and online channels will be brought together into one team reporting to the CEO.

So far this year, its stock has lost nearly 12% and sports a relatively low trailing P/E ratio of 13.5. Investors drawn to the attractive valuation of Rogers would be well served by taking a wait-and-see approach. Improving the customer experience, and achieving better financial and operational performance as a result, will require nothing short of a fundamental cultural shift at Rogers — not an easy task, to say the least.

Rogers Communications releases its second-quarter results on July 24.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RCI (Rogers Communications Inc.)
2. NYSE:TU (TELUS)
3. TSX:RCI.B (Rogers Communications Inc.)

4. TSX:T (TELUS)

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