Are Investors Better Off Without Rogers Communications?

Description

Canada's top communications company, **Rogers Communications** (TSX: RCI.B)(NYSE: RCI), has just released its second-quarter results. Now investors are left to peer into the fiscal tea leaves to see if it is time to sell, hold, or buy. Before I can even get to the numbers, you should know Rogers announced that in an effort to become a more "nimble" company it would be engaging in some layoffs. In particular, these layoffs include 15% of "vice president and above positions" and several hundred middle management positions.

If the lead-off to this story is a corporate restructuring program, what does that say about the most recent quarter for Rogers? Competition in the sector is getting fierce, with **Telus** (TSX: T)(NYSE: TU) becoming the new No. 2 wireless company. In addition, with **BCE** (TSX: BCE)(NYSE: BCE) moving to fully acquire and privatize **Bell Aliant** (TSX: BA), all eyes are on Rogers and its plan to remain in the top spot.

Revenue in the quarter came in at $3.21 billion, remaining completely unchanged from Q2 2013. Net income is a completely different matter, totaling $405 million, or $0.79 per share, down 24% from $532 million, or $1.03 per share, in last year's quarter.

Wireless woes

During the quarter, Rogers managed to add 38,000 new post-paid subscribers, down from 98,000 during the same time last year, bringing its total subscription base to 8.11 million. The pre-paid division managed to slow down its losses, with only a net subscriber loss of 31,000 compared to 56,000 a year earlier. The entire wireless division saw its revenue drop in the quarter to $1.8 billion, which is $13 million less than last year.

Luckily for Rogers, it saw its average revenue per user increase during the quarter to $66.40, above the market's estimate of $64.93. The flat numbers should be a surprise for investors as Canada has entered an oversaturated phase of cell phone use. With 27 million active cellphone subscriptions in a country with a population of 34 million, room for growth looks rather slim.

Cable and internet revenue

While wireless took a hit in revenue, its cable and internet segments saw some revenue growth. With its cable division, revenue rose by $2 million in the quarter to total $872 million. However, the cord-cutting movement continues with a net loss of 33,000 subscribers compared to a net loss of 35,000 in Q2 2013, bringing the total subscription base to 2.07 million from 2.19 million.

Internet subscriptions even took a hit, with a net gain of 2,000 compared to a net gain of 6,000 last year. This means that not only are people cutting their cable but also that they are not relying on Rogers' internet services as much either. Rogers now has to wait until October to see if its 12-year gamble on the NHL will translate into more cable and internet subscriptions.

The best of the rest

The business solution division earned $95 million this quarter, up from $90 million during the equivalent quarter last year, while its media division posted revenue of $475 million, up from $470 million. The media division will be the story to watch between now and Christmas, as we will have the opening of the Rogers Age NHL season, and the coming expansion of its two TSN channels to four.

With the quarterly report now released, the stock closed Friday at $42.46, near the bottom end of its 52-week low of $40.18 to $48.64. The stock's price target is quite varied, with an average target of $45.00 and a low-high range of $21.00 and $59.00.

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