



3 Key Takeaways From Quebecor, Inc's Q2 Earnings

Description

Quebecor, Inc. (TSX: QBR.A) is Quebec's leading telecommunication provider and it reported its second-quarter earnings last Thursday. Here are three important takeaways from the conference call.

TVA Sports

The official launch of the two sports stations TVA Sports and TVA Sports 2 is a great new segment and I think it will be the future of cable television. With the popularity of DVRs, watching TV shows once a week is becoming less prevalent as consumers opt for recording a couple of episodes and watching them all on a rainy afternoon. That's not something that can be done with live sports.

This is why I like both of these new stations so much, but even better, Quebecor managed to get the holy grail of sports in Quebec: the Montreal Canadiens. Starting in 2014, TVA Sport will be the official French language broadcaster of the National Hockey League for the next 12 years, showing all of the Canadiens' matches on Saturday and all of their playoff games.

This is big news for the company and it should be very profitable for the future.

New Media Group

Recently appointed CEO Pierre Dion announced the creation of a new division called Media Group that will combine the operations of the news, media, and broadcasting divisions. Essentially, he is bundling all the advertising related divisions of the group together to better leverage the offering to clients. Again, this is an excellent move considering the stellar execution that the company manages to pull off given its small size.

At the same time, Quebecor also completed the sale of 74 weekly newspapers published in the province of Quebec, which allows the company to focus its resources on the daily newspapers they own. I like this move because the challenges of print media are very real and having a focused mindset is the key to future success.

Overall, this was a much-needed reorganization in order to adapt to the new reality of advertising that

will likely increase the value offering of Quebecor to its clients.

The numbers

Quebecor posted a Q2 net loss of \$55 million, but a big part of that came from an impairment to goodwill of \$178 million. If we look at adjusted income from continuing operations, there is a profit of \$66 million or \$0.54 per share, an increase of 25% year-over-year. While goodwill impairments are never fun, they do not affect cash flows. When it comes to cash, Quebecor did not disappoint, with positive free cash flow of \$50 million for the quarter.

The company also managed to deliver on its balance sheet by issuing new U.S. denominated debt at much lower interest rates. Net debt to EBITDA was down to 3.2 times compared to 3.6 last year. This is an opportunistic move on the part of management to take advantage of the lowest high-yield interest rate environment in the United States in a long time.

The numbers were pretty good in my view except for the goodwill impairment. The company is deleveraging itself, posting strong cash flow numbers and increasing gross revenue.

Should you invest?

I like Quebecor, it is a small player in the telecom sector in Canada, but it is an excellent operator that will strongly benefit from the federal government's will to allow a fourth national player in the future.

The company is on the front line to win more spectrum auctions in the future, and its track record of excellent operating skills gives me confidence that there might be more upside potential on the horizon.

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1. TSX:QBR.B (Quebecor Inc.)

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Date

2025/06/30

Date Created

2014/08/05

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