Why Rogers Communications Inc. Deserves a Spot in Your Portfolio

Description

So far in 2014, the stock of **Rogers Communications Inc.** (TSX: RCI.B)(NYSE: RCI) has underperformed its competitors significantly. Excluding dividends, shares of Rogers are down 12%, while **TELUS Corporation's** (TSX: T)(NYSE: TU) shares are up nearly 4%, and **BCE Inc** (TSX: BCE)(NYSE: BCE) is up almost 7%.

There are a few reasons why investors have sold the stock. Telus is gaining wireless market share, even going as far as recently surpassing BCE for second place in Canada. Rogers invested heavily in the latest spectrum auction, paying $3.3 billion for coveted 700-MHz space. Many analysts were surprised at the hefty price tag. Rogers also recently shook up management, all but admitting the previous group wasn't effective.

The good news for investors? This recent underperformance has created a terrific buying opportunity. Here are three reasons why.

1. Its wireless issues aren't so bad

The Canadian government has all but rolled out the red carpet to try and attract a fourth player to compete in the wireless space. **Quebecor, Inc** (TSX: QBR.B) has bought spectrum in Canada's four most populous provinces, but is probably years away from making any sort of serious push, if at all. After all, it's barely had success in Quebec, where it has brand recognition.

Looking south of the border, an entry into Canada by the incumbents there seems even less likely. They're either digesting huge acquisitions or looking to merge themselves. Perhaps the only carrier in the world with the cash and operational skill to make an effort at cracking Canada is **Vodafone Group Plc**, and it doesn't seem interested at all.

It's unlikely that the wireless sector is going to see another serious competitor, at least over the next few years.

Rogers' recent wireless results have admittedly been weak. Its new CEO, Guy Laurence, has been hard at work solving problems, including simplifying overly complicated promo offers and streamlining front line sales activities. Look for its wireless results to improve, and with them, the stock price.

2. A compelling valuation

Compared to its peers, Rogers is a much cheaper stock.

Its shares currently trade at less than 15 times trailing earnings, and 13.5 times estimated 2015 earnings. This compares to Telus, which trades at 18.5 times trailing earnings and 16.5 times forward earnings, and BCE, which trades at nearly 19 times trailing earnings and 15.5 times next year's earnings. Rogers is nearly 30% cheaper than its most expensive rival.

Additionally, Rogers has some assets that are worth more than investors think. Based on current valuations for sports teams, the company's 37.5% ownership stake in the Toronto Maple Leafs and Raptors is underappreciated, as well as its sole ownership of the Blue Jays. By my estimation, simply valuing the sports assets at fair market value would add between $3 and $4 per share in book value.

3. Giving back to shareholders

Investors who buy the company's shares now may be forced to wait a while before they start to recover. Fortunately, investors are being handsomely rewarded to do so, with a 4.3% yield. The dividend continues to grow nicely, rising almost 5% so far in 2014.

Rogers has also been aggressively buying back shares. Since the end of 2010, the float has been reduced more than 10%, from 580 million shares to less than 520 million today. If you combine both the dividend and the share buybacks, Rogers has consistently returned 6%-7% annually to investors, and looks poised to continue this in the future.

The bottom line? Rogers is cheaper than its competitors, pays a nice dividend, and has a plan to regain its dominance in wireless. The market has unfairly punished the stock, giving investors a nice buying opportunity.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BCE (BCE Inc.)
2. TSX:QBR.B (Quebecor Inc.)
3. TSX:RCI.B (Rogers Communications Inc.)
4. TSX:T (TELUS)

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