



3 Reasons Why Rogers Communications Inc. Is a Perfect Stock for Uncertain Times

Description

As the market continues to reach new highs, investors are finding it difficult to find anything resembling a bargain.

Money continues to flood into equities, mostly because there are no other options. Bonds don't offer much in yield, and commodities, led by gold, haven't performed well since 2012. Enough has been written about Canada's real estate bubble to scare off even the most eternal optimists. All that's really left are stocks, and there's a growing chorus that thinks even they're overvalued as well.

With all this noise, it's little wonder that investors are uncertain of what to do next. How should you invest in this environment?

It's pretty simple, actually. You pick temporarily beaten-up stocks of good businesses with short-term, fixable problems, and you hold them until the market loves them again. There's a reason why it's a time-tested strategy — it works.

Here are three reasons why **Rogers Communications Inc.** ([TSX: RCI.B](#))([NYSE: RCI](#)) is that kind of stock, and why it should be in your portfolio, especially in these turbulent times.

1. A terrific moat

If I gave you \$1 billion and told you to build a competitor that could compete with Rogers, could you do it? I know I couldn't. How about if I gave you \$5 billion? \$10 billion? I think that might be a little more effective, but this new company still wouldn't be much more than an annoyance.

According to billionaire investor Warren Buffett, perhaps the most important characteristic an investor should look for in a company is a sustainable moat. Consider the amount of money Rogers has invested in its wireless network, its wireline infrastructure, and even its media properties and sports teams, and you get a huge moat. Those are terrific assets, and they're not going away soon.

2. These problems are fixable

There's one simple explanation that accounts for a large part of the stock's underperformance over the last year: Rogers is getting killed in wireless, particularly by **Telus Corporation** ([TSX: T](#))([NYSE: TU](#)). There are a couple of reasons why I think this is only temporary.

First of all, Rogers knows it has a problem, and has taken steps to fix it. Its new CEO, Guy Laurence, actually spent time at stores, selling phones to customers. He found a number of issues, including overly complicated sales agreements and so many promo offers that staff could barely keep them straight. Changes are being made.

For the first time ever in wireless, overall growth isn't really there. Wireless penetration has essentially peaked in Canada, meaning the incumbents are fighting among themselves, needing to poach from competitors to grow. In that situation, I like the company's chances. It has the country's best network; it just needs to execute on improving customer service.

3. It's cheap

Shares of Rogers currently trade at just over 15 times earnings, 20% cheaper than its nearest competitor, **BCE Inc.** ([TSX: BCE](#))([NYSE: BCE](#)), which trades at more than 18 times earnings. Even on a forward earnings basis Rogers is cheaper, coming in at less than 14 times compared to BCE, which trades at nearly 16 times. Investors get Canada's wireless leader at an attractive valuation. What's not to like about that?

The company also pays a fat dividend, currently yielding 4.2%. This dividend continues to grow, as it has gone up 5% in 2014 and nearly doubled since 2009. Additionally, the company is aggressively buying back shares, eliminating more than 10% of shares outstanding since 2010.

Rogers is a temporarily beaten-up company with a great moat, a compelling valuation, and fixable problems. Investors looking for a solid performer should buy the company now and tuck it away for a few years. I think they'll be pretty happy with the result.

CATEGORY

1. Investing

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