



2 Reasons to Hang Up on Rogers Communications Inc., and 1 Stock to Buy Instead

Description

Rogers Communications Inc. ([TSX: RCI.B](#))([NYSE: RCI](#)) and **Shaw Communications Inc.** ([TSX: SJR.B](#))([NYSE: SJR](#)) are partnering on a new Internet streaming service to compete with **Netflix**, but investors looking to benefit from the new initiative should avoid Rogers and buy Shaw instead.

Here are two reasons why I think investors should avoid Rogers Communications.

1. Wireless woes

Rogers Communications is Canada's biggest wireless company, but this part of its operation is struggling.

In its Q2 2014 earnings statement, the company reported a significant drop in net new postpaid subscribers for both the second quarter and the first six months of the year compared to 2013.

This has resulted in a 12% drop in wireless equipment sales compared to Q2 2013.

More importantly, Rogers is earning less money per subscriber. Blended average revenue per unit (ARPU) for the first six months of 2014 was \$58.39 compared to \$59.48 for the same period in 2013.

To put the crisis in perspective, **Telus Corporation** ([TSX: T](#))([NYSE: TU](#)) reported its blended ARPU in the wireless division hit a record of \$62.51 in the second quarter. This was the fifteenth consecutive quarter of year-over-year ARPU growth.

Rogers is losing the wireless battle with Telus and **BCE Inc.** and that trend doesn't look like it will reverse anytime soon.

2. Sports media expenses

Rogers spent \$5.2 billion last year to acquire the rights to broadcast NHL games across Canada for the next 12 years. The company paid \$150 million up front and will pay annual fees beginning at \$300

million. The yearly fees continually increase until they hit \$500 million by the end of the contract.

This doesn't include the expenses Rogers has to incur to expand its entire NHL broadcasting business unit, including the big salaries it will have to pay to get top talent for the shows.

The NHL bet is a big gamble. There is no doubt that Canadians are mad about hockey, but that does not guarantee the investment will be profitable.

Why you should buy Shaw Communications Inc. instead

Investors looking for a Canadian media and communications company to buy should consider Shaw Communications Inc. if they want exposure to the Shomi initiative but don't want to be saddled with the negative issues facing Rogers. Shaw has a strong cable business and owns a wide variety of top-rated television assets including the Global Television network, HGTV Canada, and Showcase.

Because Shaw does not have a wireless unit and has avoided the temptation to bet big on professional sports, it has the freedom to invest capital in other areas that are growing and have the potential to deliver a much higher level of free cash flow.

Shaw recently spent \$1.2 billion to buy ViaWest, a Colorado-based data center company. Internet storage is a growing industry and the acquisition positions it well to capitalize on the demand for storage services from its mid-market customers. The company also owns valuable satellite and broadcast assets. Its direct-to-home digital satellite service reaches about 900,000 customers across Canada.

Many investors don't know that Shaw provides satellite-based services to broadcast-distribution clients. In fact, the company manages one of the largest full-service commercial signal distribution networks in North America and delivers more TV and radio signals to redistributors than any single source satellite supplier.

Shaw pays a dividend of \$1.10 per share that yields about 4%.

The bottom line

Investors should consider Shaw Communications ahead of Rogers Communications if they want exposure to the potential of the new Internet streaming service. Shaw's decision to avoid the competitive wireless market and risky sports media binge means it can focus on other high-margin opportunities.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:NFLX (Netflix, Inc.)
2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:SJR (Shaw Communications Inc.)
4. NYSE:TU (TELUS)
5. TSX:RCI.B (Rogers Communications Inc.)

6. TSX:SJR.B (Shaw Communications)
7. TSX:T (TELUS)

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