



Why Rogers Communications Inc. Shares Are Worth \$57

Description

2014 has been a pretty good year for Canadian telecom investors, with one notable exception — **Rogers Communications Inc.** ([TSX: RCI.B](#))([NYSE: RCI](#)). The stock is down more than 12%, while its competitors have enjoyed positive returns.

The market has been down on Rogers for a couple of reasons. The company has been spending money pretty freely lately, including more than \$3 billion on new wireless spectrum in March, as well as announcing a new \$5.3 billion broadcast deal with the NHL, which just recently debuted along with the NHL season last week. While these are both good long-term investments, investors are worried the company is taking on a little too much debt.

Rogers is also struggling with its wireless division. **Telus Corporation** ([TSX: T](#))([NYSE: TU](#)) continues to post great subscriber growth, partially at the expense of Rogers. Things got so bad that one of new CEO Guy Laurence's first priorities on the job was spending time in stores to see what was going on. He found a menagerie of confusing plans and promotions, to the point where staff weren't even fully aware of all the things the company was offering.

Turning the corner

Thanks to these issues, the market has pushed Rogers Communications into downright cheap territory. Shares trade at a price-to-earnings ratio of just 14 times, compared to 17 times for Telus and 18 times for **BCE Inc.** ([TSX: BCE](#))([NYSE: BCE](#)). Even slow growing **Shaw Communications Inc.** ([TSX: SJR.B](#))([NYSE: SJR](#)) trades at a higher valuation, at just over 16 times earnings.

There's no reason for Rogers to trade at such a cheap valuation compared to its peers, especially as these long-term investments start to pay off over the next couple of years.

Investors need to remember that Rogers is still Canada's leader in wireless, with a market share of 35%. Rogers still has arguably the best wireless network in the country, strengthened by the company's investment in 700mhz spectrum, which is some of the best available. This enables it to further push things like video on the go, which is an excellent compliment to its television service.

Rogers also understands the importance in investing in content for its media properties. Let's face it, it's really easy for most consumers to stream their favorite television program, at a time when it's convenient to them. This does not bode well for the future of broadcast TV, so Rogers invested in the area that is keeping millions of Canadians from cutting the cord — live sports.

On Saturday night, Rogers leveraged its NHL deal into content on nine channels, six of which involved Canadian teams. Sunday nights and Wednesday nights will also have coast-to-coast NHL games involving a Canadian team, and many of the company's regional channels will show their respective teams. In total, nearly half of the NHL's games will end up being shown on a Rogers channel.

This NHL coverage, combined with the company's MLB and NBA coverage, makes Rogers the undisputed leader in Canadian sports. This translates into more eyeballs watching the company's channels, and, ultimately, increased profits.

Why it's worth \$57

This is a terrific entry point for Rogers. The market is focusing on short-term problems, giving long-term investors a nice opportunity.

Analysts are expecting Rogers to earn \$3.16 per share in 2015, an improvement to the forecasted earnings of \$3.08 per share in 2014. I think there's potential to exceed 2015's estimates (since analysts are projecting a pretty anemic 2.6% earnings growth), but let's assume it earns \$3.16.

All the company needs is for investors to give it the same valuation as BCE, which trades at 18 times its earnings of \$2.65 per share.

Or, to put it another way, BCE is projected to earn \$3.24 in 2015, a mere 2.5% more than Rogers. Yet the company trades at a premium of more than 13%. Look for that gap to decrease.

Investors who buy Rogers now are looking at an upside of nearly 40% once we factor in the company's generous 4.3% dividend. All it needs to do to get there is trade at the same valuation as its peers. Considering how the company spent years trading at a valuation higher than its peers, this shouldn't be too difficult.

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Date

2025/09/13

Date Created

2014/10/13

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