Rogers Communications Inc. vs. BCE Inc.: Which Telco Should You Own?

Description

Billionaire investor Warren Buffett always says investors should look for a moat surrounding a company. Otherwise known as a strategic competitive advantage, this ensures that the company you're about to buy into can't very easily be copied by an upstart competitor.

A moat can come in many forms. It could be a rock solid brand, something consumers think of immediately when thinking of the product. How many of you call a tissue a Kleenex no matter what brand it is? That's a moat right there, and a darn good one to boot.

Other moats might include patented technology, being the dominant leader in the market, belonging to an industry that is protected against foreign competition, or, in the case of Canada's telecoms, having such a huge amount of capital invested in networks that it makes it unlikely a foreign competitor will enter the market, no matter how much the Canadian government might be pushing for it.

This moat makes both **Rogers Communications Inc.** (TSX: RCI.B)(NYSE: RCI) and **BCE Inc.** (TSX: BCE)(NYSE: BCE) attractive places to invest your money. But which is the better choice? Let's take a closer look.

Valuation

Currently, Rogers trades at a P/E ratio of 16.1x earnings. Looking forward, analysts expect earnings to grow to $3.00 per share for 2014 and $3.10 per share for 2015. That puts the company's forward P/E ratio at 14.2 and 13.7, respectively. When compared to the overall market, Rogers trades at a pretty significant P/E discount.

BCE, meanwhile, is a little more expensive. The company currently has a P/E ratio of 19.2x earnings. Analysts expect earnings to grow to $3.13 per share for 2014 and increase again to $3.27 per share in 2015. Those increases bring down BCE's forward P/E multiples to 16.3x and 15.6x, respectively.

It's obvious. From an earnings standpoint, Rogers is easily the cheaper company.

Business outlook

There's a reason why Rogers trades at a cheaper valuation than BCE. Lately, the market has been bearish on Rogers.

Most of Rogers's problems come from its wireless division. Subscriber growth has practically stopped, while competitor **Telus Corporation** (TSX: T)(NYSE: TU) is using a combination of slick marketing and terrific customer service to emerge as the new growth leader in the sector. Rogers also suffers from what the market perceives as too much debt, as a result of spending aggressively during the last spectrum auction.

Meanwhile, BCE keeps chugging along. It's enjoying some recent success with its Fibe TV service, as well as getting good results from its media division. It isn't getting quite the boost Telus is from wireless growth, but the company continues to pick up new customers at a steady pace.

Most of BCE's growth is going to come from its $3.95 billion acquisition of the 44% of **Bell Aliant** it didn't already own. That acquisition looks to add about $2.8 billion annually in additional revenue, with free cash flow getting a boost of $200 million.

Over the long-term, growth looks to be about equal. But in the short-term, BCE has an obvious growth catalyst.

Dividend

Currently, BCE has the better dividend yield. Its shares pay 4.8% annually to own them, while Rogers shares only pay 4.2%. But the current yield is only one part of the story. What does the future have in store?

Since the end of 2009, both companies have had impressive dividend growth. BCE has upped its quarterly payment from $0.41 per share to $0.62 per share, an increase of approximately 50%. The current payout ratio is close to 85% of net earnings, meaning dividend increases could slow down in the future.

Meanwhile, Rogers has increased its quarterly dividend from $0.29 per share in 2009 to $0.46 per share today, which is an increase of about 60%. Rogers also has a lower payout ratio, coming in at just 70% of net earnings. That leaves it with more wiggle room than BCE to increase dividends going forward.

Even though BCE appears to be a better growth play, Rogers looks to have the more attractive long-term dividend prospects and is significantly cheaper. That makes it a better buy than BCE.

Want more dividend-paying stocks? We've got three that you should check out.

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nelsonpsmith