Rogers Communications Inc. Misses Q1 Expectations. Is the Media Giant's Stock Still a Good Buy?

Description

A double whammy by the CRTC was partly to blame for weak quarterly profits at **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI), with earnings per share failing to meet analyst expectations. However, revenues were higher in the company's first quarter of 2015, slightly topping predictions. Is this a good time to buy Rogers' stock?

Rogers said profits dropped 17% to $255 million in Q1 2015 from $307 million in the same period a year ago. Basic and diluted earnings per share in Q1 2015 were $0.53 per share, well short of analyst predictions of $0.63 according to Yahoo Finance. Operating revenue for the quarter was $3.17 billion, up from $3.02 billion in Q1 2014, and slightly beating analyst projections of $3.16 billion.

Rogers noted that the implementation of a CRTC decision mandating that telecom providers could no longer require customers to provide a minimum of 30 days' notice to cancel services resulted in a decrease of $3 million in cable revenue this quarter, as well as an increase in cable total service unit losses of approximately 40,000.

Equipment sales rose 32% as Rogers proactively early-upgraded targeted subscribers in advance of the wireless industry's "double cohort," resulting in an increase of 18% more upgrades this quarter, the majority of which were high-cost smartphones.

The double cohort refers to the greater-than-usual number of subscriber contracts coming to an end as both three- and two-year contracts expire near the same time, another ruled change recently introduced by the CRTC. The final expiration of remaining three year contracts for consumers will occur this summer. Rogers said operating expenses rose 32% as the company struggled to retain customers with subsidized smartphone upgrades.

"We made planned strategic investments to retain high-value customers ahead of the conclusion of the industry-wide shift to two-year contracts this summer—our underlying adjusted operating profit growth was otherwise solid," said Guy Laurence, Rogers' president and CEO.

Issues surrounding the double cohort led to a recent downgrade in the stock by National Bank Financial, which noted the company would have to take a more active approach to upgrading customers, resulting in higher-than-normal retention spending.

Despite mixed earnings resulting from the double cohort and the new CRTC contract stipulations, Rogers remains a worthwhile purchase for long-term investors, and is perhaps even more attractive than its main competitors, **BCE Inc.** and **Telus Corporation**.

Rogers' stock is cheaper than both BCE and Telus, and it has an impressive dividend yield of nearly 4.6%. And Rogers has proved it's willing to invest heavily in its future by paying over $3 billion for wireless spectrum and $5 billion for NHL broadcast rights. This is a company looking ahead and is not afraid of spending to solidify its position as one of the country's top media companies.

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