Did Rogers Communications Inc. Go Offside With the NHL Deal?

Description

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI) is on an ugly three-month slide, and the company just released disappointing earnings. The latest results aren't great, but fans of the stock say there is still potential for solid long-term gains.

Earnings woes

Rogers reported a year-over-year 19% drop in Q1 adjusted net earnings. The company continues to battle with customer service issues and is spending a lot of money to keep wireless and cable clients from switching to competitors.

A massive expiration of wireless contracts is coming this summer, and the CRTC just paved the way for pick-and-pay cable packages. These issues should be top of mind for investors, but the biggest concern—whether justified or not—seems to be the success or failure of the NHL deal.

The huge bet on Canadian hockey fans

In late 2013 Rogers signed a 12-year, $5.2 billion deal to acquire the Canadian broadcast and multimedia rights for the NHL. At the time, the agreement looked like a fantastic move. Now, investors aren't so sure.

Right from the get-go, ratings for regular season games were worse than expected. By the all-star break, advertisers and Rogers executives were getting nervous. According to the Globe and Mail, Rogers expected a 20% increase in viewers for the 2014-15 season and signed-up advertisers based on those assumptions.

Numeris, the company that collects viewer data, said this year's NHL all-star game pulled in about 1.5 million viewers compared with an audience of nearly 2.5 million for the last televised NHL all-star match.

So, what happened?

There has been a lot of finger pointing by Rogers, its competitors, and hockey fans alike.

The Maple Leafs had a brutal year, and that probably impacted overall viewership during the regular season more than any other factor, but there were also changes in the control centre.

In an effort to attract more millennials to the game, Rogers hired George Stroumboulopoulos to anchor the broadcasts. In theory, the move makes sense, but Stroumboulopoulos has big shoes to fill and it will take more than one season for die-hard fans to adjust to the new style.

Targeting younger audiences comes with risks. The millennial and Gen-X crowds are the most coveted groups for advertisers, but the way younger fans consume sports content is much different than that of the older folks who traditionally plop themselves in front of the TV for the entire game.

Millennials are more likely to follow the games on digital platforms and through social media updates, and they might not have the same attention span, especially when it comes to ads.

This can be problematic for an advertiser like an automobile company that wants the viewer to sit through the full commercial for its latest car, pick-up truck, or SUV.

Solutions Research Group conducted a study of 1,500 Canadians and found that the overall rating of Rogers' NHL coverage was 6.1 out of 10. Millennials had a more positive response than the other age groups, giving Rogers a score of 6.5.

Is all lost with the NHL deal? Not yet.

The start to the playoffs has been a huge success—mostly because five Canadian teams made it to the first round. Ratings are up by 40-60% compared with last year and Rogers' online streaming service, GameCentre Live, has enjoyed a 60% increase in users since the start of the playoffs.

Winnipeg is already out, meaning only two of the five Canadian teams will advance, so it will be interesting to see if the momentum continues. At this point, it's just too early to say whether the NHL deal is a good one for investors.

Should you buy the stock?

Rogers currently trades at 14.5 times forward earnings and 4.1 times book value, which are attractive metrics compared to the five-year average. The company pays a dividend of $1.92 per share that yields about 4.5%.

The stock is appealing at current prices and you will get paid a solid dividend to wait for better days, but you have to believe the NHL bet will turn out to be a winner and that Rogers can fix its customer service problems. Otherwise, your telecom pick should probably be one of the other companies.

CATEGORY

1. Investing

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1. NYSE:RCI (Rogers Communications Inc.)
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