



Should You Buy Rogers Communications Inc. Around Earnings Report Time?

Description

Rogers Communications Inc. ([TSX:RCI.B](#))([NYSE:RCI](#)) is reporting its second-quarter earnings results on Thursday. Should you buy it today? First, let's take a look at Rogers' business, and then compare it with its competitor.

The business

Rogers is one of the three biggest telecoms in Canada. It is Canada's biggest wireless voice and data communications services provider. It is also Canada's largest cable television provider of cable television, high-speed Internet, telephone services, and video retailing.

Earnings and valuation

Other than showing a trend of decreasing earnings, Rogers is also losing to the competition. Its operating margin in 2013 was 23%. In 2014 it was 20.7%. And now its trailing 12-month operating margin sits at 19.8%.

Year Earnings Growth

2011

2012 14%

2013 -1.2%

2014 -20.5%

Going forward, its earnings are only expected to grow at 3% in the foreseeable future. With its price-to-earnings ratio around 15, there's no discount on Rogers's shares.

Dividend comparison

At about \$44 per share, Rogers yields 4.3%. Although there's no immediate danger to its dividend, the payout ratio has been expanding, which is generally a bad sign.

Between 2009 and 2013 its payout ratio was at a high 40%. Now, it's at a 10-year high of 74%. The high payout ratio is due to decreased earnings. If Rogers does not fix its earnings growth, its dividends won't be able to grow healthily.

Looking at Rogers's dividend growth, it was only able to grow it by 5% per year in the last two increases. With an initial look, it's keeping pace with inflation. However, other than comparing it with its own history, investors should also compare it with its peers to decide which is the better investment.

Here I'm comparing the dividend-growth rates between Rogers and **Telus Corporation** over various periods.

Telecom 1-Year DGR 3-Yr DGR 5-Yr DGR

Rogers	5.2%	8.8%	9.9%
Telus	11.8%	11.3%	9.9%

As we can see, in recent years Telus's dividend growth has picked up while Rogers's has slowed down. Telus's dividend growth is also supported by earnings growth. Particularly in 2013 and 2014, Telus's earnings grew 18% and 11%, respectively.

Should Foolish investors buy today?

Unless Rogers Communications shows signs of increasing its earnings again, I don't see why Foolish investors should buy its shares. Rather, it would be a better investment to buy its competitor, Telus, which has been expanding its operating margin in recent years and has been increasing its earnings each year at a rate at least double that of inflation. That said, Telus is fully valued today and would be a better buy at a 4% yield or higher.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

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2. TSX:RCI.B (Rogers Communications Inc.)

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