The NHL Is Paying Off for Rogers Communications Inc.

Description

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI) recently reported surprisingly stronger-than-expected second-quarter results. This was after the company overcame weaker year-over-year profitability in its key wireless and cable segments to still grow its adjusted operating profit by 2% over last year's second quarter.

The surprising driver of this growth was the company's media segment, which scored a 67% increase in profitability largely due to the company's recent NHL licensing agreement.

More cord cutting

Like most traditional telecom companies, Rogers Communications is facing strong headwinds from customers cutting the cords on their cable and home phones. This had a noticeable impact on the company's cable segment, which was only able to muster roughly flat year-over-year revenue, while operating profit slipped 2%.

The cause was customers who continued to pull the plug on traditional services — Rogers' television revenue fell 3% while phone revenue fell 5%. If it weren't for strong internet sales, which were up 5% year-over-year, the company's cable segment would have suffered an even worse fate from all of the cord cutting.

In addition to shifting their viewing online, Rogers' customers are also swapping out their home phone for wireless devises. This led to a 6% surge in wireless sales for the company during the quarter. Rogers invested heavily in the segment during the quarter to subsidize smartphone upgrades for its customers, which resulted in relatively flat profitability. However, this investment is expected to yield stronger customer retention and increased data usage, which should improve profitability over the long term.

Content is still king

While Rogers is working to overcome shifting consumer preferences in its wireless and cable divisions, there is one area where its customers' preferences haven't changed and that's a desire to watch live sports. That drove a 23% surge in the company's media segment revenue, along with a 67% increase in segment profit over last year's second quarter. It's a surge the company attributes primarily to its exclusive NHL agreement. However, the company also experienced growth at Sportsnet and the Toronto Blue Jays, both of which feed into consumer demand for live sports content.

Rogers specifically pointed out that the media segment's second-quarter financial windfall was driven by revenue from the NHL agreement, especially from playoff games that occurred during the quarter. These playoff games commanded a premium in advertising revenue, as viewers were glued to the games and associated content.

Further, because fans prefer to watch sports live, they weren't able to skip the commercials. Rogers' access to exclusive sports content also helped to boost subscriptions of the company's Sportsnet properties as the only way for fans to tune into most of the games and content is to be a subscriber. In other words, while Rogers' customers might be cutting the cable cord, they aren't cutting out live sports.

Investor takeaway

While Rogers is feeling the impact as more customers cut the cord on cable and their home phone, the company isn't letting that hurt growth. Instead, the company's diversification strategy is paying off as it's seeing growth in its wireless and media segments as it's shifting its investment to capture consumer demand elsewhere.

CATEGORY

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