



Rogers Communications Inc. Finally Cashes In on its Wireless Growth

Description

Rogers Communications Inc. ([TSX:RCI.B](#))([NYSE:RCI](#)) spent the bulk of 2015 investing in its wireless business.

These investments delivered solid single-digit year-over-year revenue growth in each quarter with the company consistently growing its subscriber base. What failed to grow was its adjusted operating profit, which slipped in each of the first three quarters. That trend, however, reversed in the fourth quarter with the company finally cashing in on the growth in its wireless division.

Turning a corner

Rogers's wireless division was very strong in the fourth quarter. It delivered 4% year-over-year growth in both operating revenue and adjusted operating profit. Driving the top-line growth was strong subscriber growth; the company added 84,000 net subscribers year over year as well as a \$4.12 increase in average revenue per account (ARPA) to \$112.07 per month.

This is a continuation of a trend whereby the company grew its total subscriber base 198,000 year over year, which is partially due to the acquisition of Mobilicity. There was also solid growth in ARPA due to the continued adoption of Share Everything plans, which generate higher ARPA.

The difference in this quarter was a decline in the growth rate in the cost of equipment as well as an overall decline in other operating expenses. For most of 2015 Rogers dealt with a "double cohort" period because a high percentage of two-year and three-year contracts expired at once.

This led to increased competition for those customers, causing Rogers to heavily subsidize smartphones in an effort to retain and grow its customer base. However, with this period winding down, the company has started to finally see the benefits of these investments.

Why wireless matters to Rogers

This shift in wireless-profitability growth is key for Rogers. While Rogers is a diversified communications and media company, it's a wireless company at its core. That's evident by the fact that

57% of its revenue and 64% of its adjusted operating profit is generated by its wireless division. Because of this, Rogers's wireless division really drives the company's financial results.

This is why the swing back towards profit growth in the wireless segment is so important to Rogers. The company's legacy businesses, such cable, phone, and media businesses, such as print advertising, are under a lot of pressure due to the fundamental shift in how consumers consume content and communicate.

That shift puts an even greater importance on the wireless division to both overcome these weaknesses, while also pushing the company forward. It's a direction that looks all the more likely with its wireless division's profitability heading in the right direction.

Investor takeaway

With its legacy businesses under pressure, Rogers really needs its core wireless division to carry the company. With it finally turning the corner last quarter, it appears that the wireless division will be up to the task of helping drive profitable growth in 2016 and beyond.

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