Rogers Communications Inc.'s Q1 Profit Falls, Revenues Rise: What Should You Do Now?

Description

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI), Canada's second-largest communications company, announced mixed first-quarter earnings results this morning, and its stock has responded by making a slight move lower. Let's break down the results and the fundamentals of its stock to determine if we should consider using this weakness as a long-term buying opportunity or if we should wait for an even better entry point in the trading sessions ahead.

Breaking down the mixed results

Here's a summary of Rogers's first-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Q1 2016 Actual	Q1 2016 Expected	Q1 2015 Actual
Adjusted Earnings Per Share	$0.51	$0.53	$0.53
Operating Revenue	$3.25 billion	$3.24 billion	$3.18 billion

Source: Financial Times

Rogers's adjusted earnings per share decreased 3.8% and its revenue increased 2.2% compared with the first quarter of fiscal 2015. The company's slight decline in earnings per share can be attributed to its adjusted net income decreasing 4.4% to $263 million, and it noted that this decline was primarily due to higher depreciation and amortization, as well as lower adjusted operating profit.

Its slight revenue growth can be attributed to its revenues increasing 5.4% to $1.89 billion in its Wireless segment, driven by a higher subscriber base, and 2.1% to $96 million in its Business Solutions segment, driven by increased demand for its IP-based services.

However, its revenue growth was partially offset by its revenues falling 1.6% to $856 million in its Cable segment, led lower by the continued decline of television and phone revenues, and 3.4% to $448 million in its Media segment, led lower by “continued softness” in broadcast television, radio, and print advertising.

Here’s a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Total postpaid wireless subscribers increased 1.8% to 8.29 million
2. Total prepaid wireless subscribers increased 18.4% to 1.59 million
3. Total Internet subscribers increased 3% to 2.06 million
4. Total television subscribers decreased 5.7% to 1.87 million
5. Total phone subscribers decreased 4.4% to 1.08 million
6. Adjusted operating profit decreased 2% to $1.1 billion
7. Cash provided by operating activities increased 163.4% to $598 million
8. Free cash flow decreased 17.3% to $220 million

Rogers also announced that it will be maintaining its quarterly dividend of $0.48 per share, and the next payment will come on July 4 to shareholders of record at the close of business on June 12.

Should you buy on the dip?

It was a fairly weak quarter overall for Rogers, and the results came in mixed compared with analysts’ expectations, so I think the slight decline in its stock is warranted. However, I also think the stock represents a great investment opportunity for the long term for two primary reasons.

First, it’s inexpensive. Rogers stock trades at 17.1 times fiscal 2016’s estimated earnings per share of $2.90 and 16.2 times fiscal 2017’s estimated earnings per share of $3.06, both of which are inexpensive compared with the industry average price-to-earnings multiple of 21.8. These multiples are also inexpensive given the strength of Rogers’s balance sheet, its estimated 4.8% long-term earnings growth rate, and the growth that it expects to achieve through its “Rogers 3.0” restructuring plan, which focuses on improving customer experience.

Second, it’s a great dividend play. It pays an annual dividend of $1.92 per share, which gives its stock a high and very safe yield of about 3.9% at today’s levels. It is also very important to note that the company has raised its annual dividend payment for 11 consecutive years, and it expects its free cash flow to grow by 1-3% from the $1.68 billion in generated in fiscal 2015, so I think this projected growth paired with its modest payout ratio, including 58.9% in fiscal 2015, will allow its streak of annual increases to continue in 2016.

With all of the information provided above in mind, I think Foolish investors should strongly consider beginning to scale in to long-term positions in Rogers Communications today.

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1. Dividend Stocks
2. Investing

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