Should You Be Worried About Rogers Communications Inc.?

Description

On April 18, **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI) reported lower first-quarter profits compared with a year earlier. The company blamed higher restructuring costs and mounting operating losses in its traditional media business. Net income for the quarter was $248 million ($0.48 per share) compared to $255 million ($0.50 per share) in 2015. The company experienced lower profits despite a boost in sales; revenues were $3.25 billion, up 2% year over year.

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Should you be concerned with Rogers's declining profitability?

A mixed bag

The primary factors behind lower earnings were largely one-time items like restructuring charges–particularly jobs cuts in the company's traditional media segments like conventional TV, radio, and publishing. Outside these segments, Rogers saw 5% growth in its wireless operations and 2% growth in business solutions.

"Overall, we delivered another quarter of revenue growth, along with continued improvements in key subscriber metrics, despite an intensely competitive quarter," the company's CEO said. "With momentum in wireless, continued growth in Internet, and a clear path forward for our TV and media businesses, we're well positioned to achieve our 2016 financial guidance."

Major long-term headwinds still exist, however.

According to a new report, 190,000 Canadians "cut the cord" last year, ending their contracts with major TV service providers like Rogers. Customer attrition has risen dramatically in recent years. Last year represented an 80% increase over 2014 levels where 105,000 people ended their contracts. Back in 2013, only 13,000 Canadians cut the cord, while 2012 actually saw a gain of 32,000 TV subscribers.

The Convergence Consulting Group believes mounting customer losses could be “the new normal.” This year, it anticipates 191,000 Canadian TV subscribers cutting the cord, instead opting for streaming services like **Netflix** or Hulu. Netflix has nearly five million Canadian subscribers, a 58% increase from 2013.

New competition isn’t only hurting Rogers’s TV division. According to CEO Guy Laurence, the company will need to raise its cellphone plan rates to cover the high cost of building and maintaining mobile networks. Competition in the space has never been more intense. “If you think about how much work it takes to build, run, and upgrade a national mobile network, trust me, it’s a lot more work than making a cup of coffee,” the CEO said.

A stagnating dividend?

The company is running out of opportunities to sustain its growth in profitability. It’s no wonder that the company failed to raise its dividend for the first time in years.

“While we traditionally announce a dividend increase with year-end results, this year we have decided to keep the dividend at its current rate,” the company’s CEO said on a conference call. “Whilst we see continued growth in the fundamentals, we felt it prudent to maintain the current dividend until we have made more progress on our leverage ratio.”

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With mounting debt levels (US$13.67 billion), it could be a while before management reasserts its focus on dividend growth. By then, eroding fundamentals in its core businesses could complicate things. While many investors are looking past this quarter’s one-time items, long-term headwinds have the potential to limit the upside of Rogers’s 3.9% dividend yield.

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