The #1 Problem Rogers Communications Inc. Needs to Overcome

Description

Media and telecom giant **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI) recently reported first-quarter results showed that it has a big problem to overcome in order to drive profitable growth: cord cutting. Significant subscriber declines in its Cable division weighed on revenue and earnings during the quarter, leading the company to report weak financial results.

default watermark

Dialing into the results

Rogers reported a fairly mixed quarter. The company's total revenue was only up 2%, while its adjusted operating profit slipped by 2%. While revenue growth was supported by some strength in its Wireless and Business Solutions segments, those segments were only able to partially overcome weakness in Cable and Media:

	Revenue		
	Q1 2016	Q1 2015	% Chang
Wireless	$1,890	$1,794	5%
Cable	$856	$870	-2%
Business Solutions	$96	$94	2%
Media	$448	$464	-3%

In millions of dollars. Data Source: Rogers Communications Inc.

While the Media segment was a big drag during the quarter, that was partially due to some seasonality as there was no baseball during the quarter. Instead, it was the company's Cable segment that is proving to be problematic to Rogers because it's the company's second-largest segment in terms of revenue and profitability. That's why its weakness had such a big impact on Rogers's overall financial results this quarter.

Cord cutting cuts into Cable

Rogers's Cable division derives its revenue from three sources: Internet, television, and phone. During the first quarter the company's Internet sales were strong, while television and phone sales were not.

Rogers's television sales slipped 7% to $395 million due to a big drop in total subscribers. The company lost a net 113,000 television subscribers during the quarter, pulling that subscriber base down to 1.87 million.

Meanwhile, phone sales slumped 16% to $99 million due to a similarly large drop in that subscriber base after the company lost net 50,000 subscribers, bringing its total subscriber base down to 1.08 million. This was only partially offset by Internet sales; revenue grew 11% to $360 million due to a movement of its customers to the higher speed and usage tiers of its IGNITE broadband Internet offerings. Overall, the company's Internet subscriber base increased by net 60,000 subscribers to 2.06 million subscribers.

This drop in the company's Cable division subscriber base is a big problem that it needs to address in order to restart profit growth. In some ways, Rogers is addressing the weakness in phone sales via its Wireless division as more customers are simply opting to do away with their home phone in favour of a mobile device.

default watermark

Meanwhile, Rogers is hoping to put a stop to sinking television sales by investing in 4k TV, which has four times the resolution of regular HD. At the moment, the focus is on live sports programming; the company is planning to broadcast over 100 live sporting events this year.

Rogers also plans to launch an Internet Protocol Television (IPTV) product by the end of the year. Further, the company continues to focus on investments in higher-speed Internet; it is rolling out gigabit Internet speeds across its Cable footprint.

All of these points are part of the company's "Rogers 3.0" plan to re-accelerate revenue growth by strengthening its Cable offerings.

Investor takeaway

Cord cutting continues to cut into Rogers's ability to grow revenue and profitability. It's something the company is working to address by investing in new cable offerings in order to re-accelerate revenue growth in that segment.

Given how important the Cable segment is to the company, investors need to keep an eye on this segment in 2016 to see if these investments are paying off or if the cord cutting continues to drag down the company's financial results.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/07/23
Date Created
2016/04/27
Author
mdilallo

default watermark

default watermark