Will Rogers Communications Inc. Grow its 3.36% Dividend?

Description

After a rough first quarter, **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI) seems to be regaining its footing.

In the first quarter of this year, Rogers reported lower profits compared with a year earlier. The company blamed higher restructuring costs and mounting operating losses in its traditional media business. In the second quarter, the company put to rest any concerns from its rough beginning to the year. It reported second-quarter earnings per share of $0.83, beating estimates by $0.02. Revenues increased by 1.8% over last year to $3.46 billion.

The most impressive part of last quarter was that nearly every business segment saw growth. Wireless brought in $1.93 million in sales (up 1%); Media had sales of $615 million (up 6%); and Business Solutions came in at $97 million (up 3%). The worst segment, Cable, was merely flat at $870 million. Strong results generated free cash flow of $495 million, which is up from $476 million a year ago.

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Now that its financials have stabilized, investors are starting to show renewed optimism in Rogers's core business. Year-to-date, shares are up over 20%. Is a dividend increase also around the corner?

The dividend is stable, but don't expect growth anytime soon

Surprising results last quarter have proven that Rogers's core business isn't dying, at least very quickly.

Wireless postpaid subscriptions grew by 65,000 lines versus last quarter's growth of only 24,000. Churn, a measure of how many subscribers canceled their plans, also improved for the third straight quarter. Overall, Rogers now has more subscribers and a higher average revenue per account

Cable revenues, an area of concern given cord-cutting, was stable due to demand for internet services, which grew 15%. The company is still seeing declines in TV and landline phone services, but growth in internet is stemming the tide almost completely. “We continue to see an ongoing shift in product mix to higher-margin internet services,” the company commented.

This will continue to be a major segment to watch, 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 over five million Canadian subscribers–a 58% increase from 2013.

Things appear to be stabilizing thanks to new services, but that doesn’t necessarily imply future growth. Over the past five years the company’s EPS has shrunk by about 4.7% annually. That’s helped push the dividend-payout ratio to around 70%, nearing historic highs. Fortunately, free cash flow generation is strong and typically comes in around 100% of accounting earnings. That means that Rogers’s accounting earnings are actually bringing in real cash, not just bookkeeping profit.

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Currently, Rogers's dividend yield is right around its multi-year average. With a historically high payout ratio and continued business headwinds, don't be surprised if the company continues to hold pat on dividend increases. On August 11 management declared a $0.48 quarterly dividend–in line with its previous level. That still results in a 3.36% yield, but Rogers's days as a dividend-growth company are over.

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