Income Investors: Is Rogers Communications Inc. a Buy on the Dip?

Description

It was a roller-coaster ride for **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI) last year, as the stock rallied sharply and dipped shortly after. The stock is currently down 10.6% from its peak last summer. It currently offers a bountiful 3.65% dividend yield which is very stable and expected to grow for many years.

Wireless subscriber growth could drive the stock higher in 2017

Wireless subscriber growth has been accelerating at a ridiculous rate over the last five quarters with over 300,000 subscribers added during this time. There's a large amount of momentum coming into 2017, and I believe it will continue into the latter part of the year. This impressive subscriber growth will cause the EBITDA to skyrocket, and a generous dividend hike is likely to follow the next earnings report.

What caused this sudden spike in wireless subscriptions?

It's no mystery that Rogers hasn't had the best customer service in the past. There were a lot of complaints filed against it, and this was not helping the company gain more subscribers for its wireless division. The company has made steps in improving its customer service experience, and this has resulted in an increase in customer satisfaction.

Customer service is underrated, but I believe it's one of the most important parts of the business. Rogers knew this and tackled the problem head on.

What makes the dividend so great?

Rogers has a very low dividend-payout ratio of 67% over the last year, which is much lower than its peers in the Big Three, which have dividend-payout ratios over 100%. Since Rogers has such a low ratio, I believe the company is much more likely to support another dividend raise of 5% or more this year. There is also more cash for the company to grow its infrastructure and improve its customer service segment. This means capital gains could also be in store for this year.

What about valuation?

The stock looks like a screaming buy after the recent dip. It trades at a forward price-to-earnings multiple of 15.9 with a price-to-book ratio of 4.6, both of which are cheaper than its five-year historical average multiples of 16 and five, respectively.

The dividend yield is in line with historical averages at about 3.7%, which may make the company look fully valued at current levels. But there's a dividend hike on the horizon, which could be bigger than expected thanks to the fantastic subscriber growth that the wireless segment enjoyed over the past year.

If you're looking for a fantastic dividend stock to add to your TFSA this year, then look no further than Rogers Communications Inc.

Buy the dip, collect the dividend, and enjoy the ride up.

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