Can Rogers Communications Inc.'s Subscriber-Growth Momentum Be Stopped?

Description

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI) has been one of the stronger performing Canadian telecoms over the past year. Defensive stocks have gone out of favour with the general public, but Rogers has still managed to power through. The stock offers a mere 3.1% dividend yield at current levels, which is absurdly low for a telecom. Does it make sense for income investors to own the stock?

The wireless segment appears to be very strong, and the customer base has grown by a substantial amount of the past three years, despite rising competition. I believe that the reason for such terrific results is the fact that the company continues to invest in its LTE network.

The marketing initiatives have attracted new customers. There's no question that Canadians love hockey and music. With select Rogers's "Share Everything" plans, Canadians get six months of free Spotify Premium and Texture by Next Issue, which is a value of approximately $29.97 per month. In addition, Rogers GameCentre LIVE subscriptions are included, which allow customers to stream select hockey games from various wireless devices.

I don't know about you, but if I were shopping around for a new wireless plan, Rogers's Share Everything plan sounds like an incredible deal to me. The program allows families a discount with nice perks, and gives the company the opportunity to sell customers extra services. The Share Everything plan offers great value for wireless users, and it's a huge reason why Rogers has been outperforming its peers in recent months.

The marketing team at Rogers knows what customers want, and customers are starting to warm up to the telecom company, which previously was lagging in the customer satisfaction department. Rogers has taken steps to improve customer satisfaction, and that's why the company has been able to grow its subscriber base of late.

Rogers is a well-run business that's been experiencing a considerable amount of subscriber growth momentum, but the stock is quite expensive when compared to its peers.

The stock currently trades at a 35.6 price-to-earnings multiple, a six price-to-book multiple, a 2.3 price-to-sales multiple, and an 8.1 price-to-cash flow multiple, all of which are considerably higher than the company's five-year historical average multiples of 16, five, 1.8, and 6.5, respectively. The dividend is also a lot lower than that of its peers, which offer yields north of the 4% level.

Although I'm a huge fan of what Rogers has done to draw in customers with its discount plans and perks, I believe the competition will learn from Rogers, and subscriber growth may be slowed once competitors offer packages that are on par with Rogers's current plans.

I don't like the valuation of Rogers right now, so I'd stick on the sidelines, as a pullback may be on the horizon.

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