



Cogeco Inc.'s Q3 Earnings Beat Estimates

Description

Cogeco Inc. ([TSX:CGO](#)) released Q3 earnings on Thursday that saw a 4.5% increase in year-over-year sales and a 4.6% increase in adjusted EBITDA. Year to date (YTD), the company's revenues have increased by 1.9%.

The company posted a profit of \$30 million for the quarter (compared to a loss of \$117 million last year), while YTD profits are up by \$145 million. A big improvement to the bottom line came due to the prior year comparables, including a write-down of goodwill and intangible assets of \$450 million.

For the quarter, Cogeco saw a 30% increase in its cash from operating activities and free cash flow was also up 19% to over \$109 million. YTD cash from operations is up 27%, and free cash has also increased by over 61%.

Overall EPS for Cogeco was \$1.80 for the quarter and beat forecasts of \$1.29. **Cogeco Communications Inc.** ([TSX:CCA](#)) also beat forecasts of \$1.41 with an EPS of \$1.54.

Challenges in the telecom World

The telecom industry continues to go through changes with more people swapping conventional home phones out for cell phones.

However, VoIP services (which Cogeco offers) provide a lower-cost alternative and, as a result, can be more appealing to customers who would otherwise get rid of the service entirely, although it is still a losing battle.

Cable television subscriptions are also continuously on the decline as consumers opt for online streaming services that don't require devices or any long-term commitments.

As online streaming options become more competitive, there is less of a desire for consumers to stick with bundled channel options that don't fit their needs.

Subscriber churn

Cogeco operates in Canada (Ontario and Quebec) and in select regions in the US.

Cogeco Communications Inc., which covers all things communications related (compared to Cogeco Inc., which includes everything) saw a loss of about 25,000 television subscribers from a year ago. Perhaps related to the cord-cutting trend, the company saw more than double that amount (~57,000) of internet subscribers being added.

Total subscribers in Canada were relatively unchanged year over year with an increase of fewer than 5,000 users (less than a 1% change). The company saw the largest declines in subscribers come from its television (~17,000) and telephone (~14,000) segments, while internet subscribers increased by about 36,000.

South of the border, there was a bit of a different story with over 18,000 subscribers that were added for a 3% increase from last year's tally. Here too, the biggest losses came from television subscribers (~8,000), while telephone subscribers increased (~5,000), as did internet customers (~21,000).

The key issue going forward is how Cogeco can work to minimize the loss of telephone and television subscribers. Some of the losses will undoubtedly be regular churn as customers switch providers, but cord cutting has definitely put a dent into those numbers. However, this is an industry-wide issue and not a problem exclusive to Cogeco.

Bottom Line

Cogeco has shown good quarterly growth and an increase in internet subscribers, but it has suffered losses in its telephone and television segments.

However, the gains have so far netted out the losses, as over the past three years the company has seen revenue grow by an average of 8% per year. If it can continue to keep growing, then so too will its stock price.

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