Is There More Juice Left to Be Squeezed From This Top Dividend Stock?

Description

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI) stock has massively outperformed its competitors and the benchmark index this year. Gaining 23% in 2017, this top dividend player surprised many investors who were expecting a tough road ahead at a time when competition from smaller companies was heating up.

After such a remarkable rally in its share price, the biggest question on investors' minds is, "Are these gains are sustainable?" All eyes are on the company's new chief executive officer Joe Natale, who joined the company only three months ago after leaving a competitor **Telus Corporation** in 2015.

For Rogers, another big milestone to achieve, and a very important one for income investors, is to increase its dividend payouts. Rogers hasn't increase its dividend since the first quarter of 2015, when it boosted its quarterly payout by 5% to $0.48 a share.

Let's discuss some key business challenges Rogers is facing in the Canadian telecom market and how a successful execution of its growth plan will help the company pay more in dividends.

Competitive forces

Rogers drives about 57% of its revenue from the wireless segment of its business. This segment has been under pressure since **Shaw Communications Inc.** acquired Wind Mobile last year.

Shaw is deploying a lot of cash to improve the quality of its wireless network, which has been responsible for slower customer acquisition for peers. Its aggressive growth strategy to gain market share is forcing all "Big Three" players to cut their prices on wireless packages. And Rogers has no choice but follow the trend.

If this competition intensifies, then Rogers will find it difficult to improve its bottom line and maintain its dominant position in the wireless market. Rogers's growth plan relies heavily on acquiring more wireless subscribers in the market with one of the lowest smartphone penetrations in the developed world.

Since the announcement of new CEO Natale, some analysts are speculating that Rogers will clean up its balance sheet by spinning off some of its media assets, like Telus, which doesn't own TV and sports content.

Rogers operates low-margin media businesses, including television stations, magazines, the Blue Jays Major League Baseball team. It also owns half of the Maple Leafs hockey team and Raptors basketball franchise with **BCE Inc**.

These expectations are some of the main contributing factors which, I think, pushed Rogers shares higher this years as investors pinned their hopes on the new CEO who will unlock new growth potential by media spinoffs.

Bottom line

Despite these competitive challenges, I don't think Rogers will disappoint its investors in the remaining half of this year. With a solid liquidity position and cash flows, the company is in a great position to face these challenges and show growth in its profitability.

The majority of analysts who cover Rogers are recommending to "hold" this stock. I think dividend investors are better off to stay loyal to Rogers.

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