Is Cogeco Communications Inc. a Buy After Recent Earnings Results?

Description

Canadian cable operator **Cogeco Communications Inc.** (TSX:CCA) has seen its share price appreciate approximately 10% over the past month, driven higher by impressive earnings results two weeks ago.

In this article, I'm going to discuss what these earnings results mean for investors considering investing in fibre optic cable networks, given increased uncertainty with respect to cord-cutting trends that appear to be taking over much of the discussion in the space.

Earning results a positive surprise

One of the reasons for the continued rise in the share price of Cogeco of late is the fact that the company has continued to outperform expectations.

On July 13, Cogeco reported earnings which beat analyst expectations significantly; the company posted earnings-per-share growth of 37% year over year — growth which was 4% higher than the consensus analyst estimates for the period.

Cash flow expansion was also remarkable, more than doubling over the previous year, partly due to changes in the company's capital-expenditure program, but also driven higher by growth in operating cash flow generation, which was up more than 30% year over year.

With earnings-per-share growth of 37%, calculating the company's price-to-earnings-growth (PEG) ratio, we get a PEG ratio of 0.35 given a trailing P/E ratio of 12.9 — a very attractive level for investors, even after the recent run up in this company's share price of late.

From a dividend perspective, while Cogeco's yield of 2% remains modest, what is attractive is the company's payout ratio which has remained around 10% for some time.

Given the capital-intensive nature of the operating business, it will likely remain important for Cogeco to have a low payout ratio moving forward, because much of the operating profit will need to bereinvested in the company's operations moving forward.

That said, a payout ratio of only 10% of trailing 12-month (TTM) cash flow remains extremely low, and I see opportunity for long-term dividend yield expansion — something that could significantly benefit a long-term investor with a long investment time horizon.

Headwinds remain a significant ongoing concern

Smaller cable operators in North America face an industry-wide sell-off linked to a cord-cutting epidemic which has hampered any cable-related company.

This trend can be viewed as either brilliant for contrarian investors looking to take advantage of an overreaction by the market, or as an extremely unwise play based on the assumption that the aforementioned cord-cutting trends will continue to pick up speed over time.

Bottom line

Cogeco is one of the top 10 largest cable operators in North America with one of the best balance sheets and value offerings for investors interested in this space.

From a long-term perspective, I believe that only the most nimble and innovative firms will be able to survive in this space. The headwinds for cable operators remain strong; however, recent earnings results and improved operating performance for Cogeco make it an interesting name to consider.

All things taken into account, I remain on the sidelines here.

Stay Foolish, my friends.

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