Reasons Why the #2 Telecom Giant Is Due for a Pullback

Description

Telecom kingpin **BCE Inc.** (TSX:BCE)(NYSE:BCE) is flat year to date, whereas **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI) has had a fabulous run in 2017, up 24% year to date. The growing **Cogeco Communications Inc.** (TSX:CCA) is also up 38% for the year. It must be said that the big moves by Rogers and Cogeco are exceptional. If the businesses can't continue to be better, then these stocks are due for pullbacks.

Is Rogers overvalued?

If history is any indication, Rogers stock may taper off to end the year. Over 10 years, the highest annual return has been 24%, and the worst annual return was -23%. The seasonality pattern for this stock also shows this stock tends to have a run to end the year off. So, which direction will this stock go? The weekly volumes may provide an indication. Four out of six high-volume trading weeks happened during price decreases over the last 20 weeks. This is a sign that the Rogers run is slowing.

Diluted earnings per share (EPS) in the second quarter were 0.766, up 30% compared to Q2 in 2016. Earnings before interest, taxes, depreciation, and amortization (EBITDA) are mostly unchanged; however, analysts are forecasting EPS will remain high into 2018 and 2019. One highlight for Rogers was the 28% increase in monthly plan wireless subscribers, referred to "postpaid additions": 93,000 plans were added for a total of 8.7 million. For reference, BCE reports a 27% increase in similar postpaid additions. So, it would seem the new subscriptions are not specific to Rogers.

Meanwhile, the debt-to-equity ratio has climbed to 2.4, and the dividend-payout ratio, now in the high 90s, has crept up much higher than the 10-year average of 61%. The stock is trading above the average forward price-to-earnings: 17.6 compared to 15.2. This stock could pull back more than 10% into the high 50s, where it would find strong support in the $56-per-share range.

Cogeco is another communication company to watch

In May of this year, Cogeco broke out of its trading range. Over a 10-year span, investing in Cogeco would yield a 114% return. Current valuations look favourable for this small-cap company ($1.2 billion market capitalization). EPS and dividend income have risen year over year. The dividend yield is

1.74%, which is modest, but there is room to grow. The most recent quarter yielded revenue increase of 4.6% to reach $565 million largely due to Cogeco's broadband services in the Canadian and the U.S. Despite the recent stock price run-up, this stock could still be considered undervalued.

A Foolish investor would be wise to wait for a pullback on Rogers and add Cogeco to their watch lists.

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