This Company Hiked its Dividend 10% After Meeting All of its Targets for 2017

Description

Cogeco Communications Inc. (TSX:CCA) released its fourth-quarter earnings last week, which saw the company achieve sales growth of just 1%, while earnings per share declined slightly from a year ago. Despite the unimpressive performance in Q4, the company met or exceeded all of the targets it set out in its guidance for 2017.

There are several positives to take from Cogeco's earnings and many reasons why the stock might be a great addition to your portfolio.

Financials show strong improvement from 2016

Revenue of $2.2 billion was up over 2% for the whole year, and profits were just shy of $300 million, resulting in a very strong 13% profit margin. Last year, Cogeco saw a net loss for the year, as it incurred impairment costs of $450 million, which wiped out what otherwise would have been a strong year.

Cogeco also brought in over $956 million in cash from its operations this year, which is 28% more than it accumulated a year ago. Free cash flow of $373 million was also up 33% from 2016.

The company had a strong year, and perhaps it's no surprise, given how the company blew past estimates in Q3.

Outlook for 2018 shows more growth

Cogeco forecasts a growth in its top line between 3.3% and 4.6%, as it expects to benefit from expansion in Florida. The company is the eighth-largest cable operator in North America and has customers in several U.S. states.

Cogeco is more diversified than other Canadian cable companies and has many different ways that it can continue to grow its business.

Internet subscribers grow, while losses from video start to slow down

Like many companies in the industry, one of the challenges Cogeco faces is consumers opting to cancel their cable subscriptions and turning to online streaming services instead. In 2017, Cogeco saw a net loss of 27,619 video service subscribers for the year, which was still an improvement over the 31,706 that were lost in the previous year.

This could be a sign that cord cutting has started to stall, as **BCE Inc.** (TSX:BCE)(NYSE:BCE) also saw a similar trend in its most recent quarter.

Internet subscribers, however, continued to grow with net additions of 54,823, showing an improvement over the 52,895 that were added in 2016.

In its telephone service segment, Cogeco had a net loss of 9,319 customers, which was an improvement over the 11,141 that it lost a year ago.

Dividend increased more than 10%

Cogeco announced that it would be raising its dividend next quarter to $0.475 per share, up from the $0.43 that investors were receiving in the previous quarter, for an increase of over 10%. The previous rate hike was also over 10%, and in five years the payout has grown by 83%.

However, even with the incredible rate increases, the dividend yield is barely 2% a year.

Is the stock a buy?

Year to date, Cogeco's share price has risen 37%, and that could continue next year if the company meets its expectations for 2018. Over the long term, the stock could make a great investment, especially if the company continues to increase the dividend.

However, it's not without its risks, as the industry is very competitive and the opportunity for long-term growth is limited.

CATEGORY

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