# Down 15% From its High, Is Cogeco Communications Inc. a Buy?

## Description

**Cogeco Communications Inc.** (TSX:CCA), the eighth-largest cable distributor in North America, watched its stock lose 6% of its value last week, including a decline of more than 5.5% following the release of its fiscal 2018 first-quarter earnings results after the market closed on Wednesday. The stock now sits more than 15% below its 52-week high of $95.21 reached back on October 4, so let's break down the quarterly results and the fundamentals of the stock to determine if now is the time to buy.



### The first-quarter results

Here's a quick breakdown of eight of the most notable financial statistics from Cogeco's three-month period ended November 30, 2017, compared with the same period in 2016:

| Metric | Q1 2018 | Q1 2017 | Change |
|---|---|---|---|
| Canadian Broadband Services revenues | $326.94 million | $316.84 million | 3.2% |
| American Broadband Services revenues | $157.69 million | $159.98 million | (1.4%) |
| Business ICT Services revenues | $69.88 million | $73.21 million | (4.5%) |
| Total revenues | $553.63 million | $549.09 million | 0.8% |
| Adjusted EBITDA | $247.48 million | $249.70 million | (0.9%) |
| Profit for the period | $76.47 million | $75.02 million | 1.9% |
| Basic earnings per share (EPS) | $1.55 | $1.53 | 1.3% |
| Free cash flow | $102.30 million | $101.38 million | 0.9% |

### Revisions to its 2018 outlook

As a result of Atlantic Broadband, one of Cogeco's subsidiaries, completing its acquisition of MetroCast and expanding its operations across 11 U.S. states, Cogeco revised its outlook for fiscal 2018; here's a breakdown of what it now expects in fiscal 2018:

| Metric | Original Outlook | New Outlook | Actual Fiscal 2017 Results |
|---|---|---|---|
| Revenue | Increase of 3.3% to 4.6% | Increase of 11% to 13% | $2,227 million |
| Adjusted EBITDA | Increase of 2% to 4.5% | Increase of 10% to 12% | $1,005 million |
| Free cash flow | Decrease of 7.8% to Increase of 0.3% | Decrease of 11% to 18% | $374 million |

As you can see, the acquisition is expected to drive Cogeco's revenue and adjusted EBITDA significantly higher, while its free cash flow is expected to show a steeper decline due to MetroCast's expansion plans in Florida paired with other costs associated with the acquisition.

**Should you buy Cogeco Communications today?**

It was a decent quarter overall for Cogeco, but no single financial statistic stood out as impressive, so I think the weakness in its stock can be considered warranted. However, I think the sell-off has led to a very attractive entry point for long-term investors for two fundamental reasons.



First, it's undervalued. Cogeco's stock now trades at just 13.2 times this year's estimated EPS of $6.11 and only 12.6 times fiscal 2019's estimated EPS of $6.38, both of which are very inexpensive given its long-term growth potential and its strong cash flow-generating ability.

Second, it's a dividend-growth superstar. Cogeco currently pays a quarterly dividend of $0.475 per share, representing $1.90 per share annually, which gives it a 2.4% yield; A 2.4% yield is solid, and it's very important to note that the cable giant's 10.5% dividend hike on November 2 has it on pace for fiscal 2018 to mark the 14th consecutive year in which it has raised its annual dividend payment, making it one of the industry's best dividend-growth stocks.

Including reinvested dividends, Cogeco's stock has returned more than 25% since I first recommended it on June 18, 2015, and I think it's still a strong buy today, so take a closer look and consider using the recent weakness to begin scaling in to long-term positions.

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