Higher Prices Help Rogers Communications Inc. Continue to Grow in Q4

Description

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI) released its fourth-quarter results on Thursday, which capped off a strong year for the telecom company, although there are signs that trouble could be ahead.

The highlights

Sales continued to show modest growth of 3% for the quarter and for the year as well, with Rogers recording more than $14 billion in revenue for 2017. Adjusted earnings per share (EPS) of $0.88 was up 19% from the prior year and beat expectations of $0.86. For the full year, adjusted EPS of $3.54 was up 23% from the $2.88 that the company recorded in 2016.

Free cash flow of $244 million, however, was down nearly 40% from the $392 million that Rogers accumulated in Q4 of last year. For the full year, free cash was up 2%.

Wireless up despite slowing growth

Wireless continues to drive the bus for Rogers, and how that segment does normally dictates how well the company performs overall. In Q4, wireless revenues totaled $2.19 billion, which was up more than 6% from a year ago. However, Rogers recorded a net addition of just 72,000 postpaid subscribers in Q4, which is down from 93,000 a year ago for a decline of more than 22%.

Rogers credits the rise in wireless sales from more subscribers as well as its customers being on higher-rate plans and using more data.

Equipment-related costs were up 11% from last year, as Rogers says that device sales have been trending toward higher-cost smartphones. Despite the increase, the segment was still able to produce a 9% improvement in its bottom line from a year ago.

Monthly churn of 1.48% was up from 1.35% a year ago, and we could see that number continue to rise in the future, especially as **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) continues to develop its Freedom Mobile brand, which is likely to intensify competition in the industry. For the year, churn of 1.2% has come in a bit lower than the 1.23% that Rogers averaged in 2016.

Other segments show mixed results

Cable revenues have shown more modest sales growth of just 1% year over year, with internet revenues rising 9% and barely being able to offset declining television and phone sales, which were down 4% and 10%, respectively.

Like in the wireless segment, cable-related growth has been fueled by rising prices and customers using higher-rate plans. There was a net addition of just 17,000 internet subscribers in Q4, which is nearly half of the 30,000 that were added a year ago. Television subscribers continue to leave, but at a constant pace, as the 13,000 net loss the company incurred for the quarter was the same amount that it saw last year.

Media-related sales were down 4%, which Rogers blames on the Toronto Blue Jays not being in the playoffs in 2017.

Bottom line

The company had a good quarter, and it was very similar to the one it had in Q3, although growth in the wireless segment was noticeably poorer, and churn also came in much higher.

The challenge for Rogers is how well it will be able to continue to grow in a wireless industry that is getting more competitive, especially when it depends on rising prices and higher-priced packages to help increase its top line.

Investors were unimpressed with the company's results on Thursday, as the stock was down ~1%.

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