Rogers Communications Inc. (TSX:RCI.B): Should You Buy the Stock on a Dip?

Description

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI) reported solid Q2 2018 results, but the stock dropped after the earnings release.

Let's take a look at the numbers to see whether this is a good time to add Rogers to your holdings.

Earnings growth

Wireless strength drove Q2 2018 adjusted net income to $554 million compared to $496 million in the same quarter last year. Adjusted diluted earnings per share rose to $1.07 from $0.96.

Total revenue rose 4%, supported by 5% growth in wireless revenue growth. Wireless equipment revenue increased 14%, driven by record postpaid gross additions of 389,000 and a postpaid churn rate of 1.01% — the lowest customer loss the company has reported in nine years.

CEO impact

Rogers has a history of customer satisfaction issues, so the improving churn rate is encouraging for investors. The company's new CEO Joe Natale, who used to head up **Telus**, might be the reason for the improved churn results. Telus is known for its customer care initiatives, and Natale indicated this would be a priority when he took the top job at Rogers in 2017.

Cable improvements

Internet revenue increased 10% compared to Q2 2017. The company's Ignite Gigabit service is now available to all of its cable customers, and that might be giving the company an edge in the market. More of the company's residential internet clients (58%) are signed up for speeds of at least 100 Mbps compared to 51% at the end of Q2 in 2017. Net additions for internet subscribers hit 23,000 in the quarter, representing the best Q2 result since 2005. Total cable revenue rose 2% compared to Q2 last year.

Media weakness

Media revenue declined 5% due to a drop in revenue from the Toronto Blue Jays operations. Rogers is 100% owner of the Blue Jays as well as a partner in Maple Leaf Sports and Entertainment, which owns the other professional sports teams in Toronto. Rogers also has the broadcast rights for the NHL in Canada.

On the positive side, adjusted media EBITDA increased 2% due to lower expenses as a result of cost cuts. In June, Rogers eliminated 75 positions in its digital content and publishing operations in an ongoing battle against declining ad revenues in the magazine portfolio.

It’s important to note the media group is a small part of the overall earnings picture. Adjusted Q2 EBITDA in the media division was $60 million compared to $462 million from cable and $1.03 billion from wireless operations.

Should you buy?

Rogers appears to be making progress on its customer care efforts, and that should translate into better retention and new customer additions going forward. Buy-and-hold investors should do well with the name and can pick up a 2.9% dividend yield.

However, the stock has already rallied about 20% off the March low, topping $67 per share in recent days, so the dip down to the current price of $66 isn’t exactly a fire sale. We are still shy of the 12-month peak and a continuation of the recovery back above $70 might be on the way, but I would hold out for a larger pullback before starting a new position in the stock.

The market is serving up some other interesting opportunities right now.

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