Why This Incumbent Telecom Has Immense Opportunity Over Its Peers

Description

Canada's telecoms make for some of the best investment options on the market for both growth and income-seeking investors, especially given the volatility we've seen in the past month.

Part of this stems from the relatively secure and regulated market in Canada, and part stems from the lack of any real competition that a natural disruptor to the market which would spur innovation and a pricing war.

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI) is one of the top telecoms in the country, offering wireless, wired, internet and TV segments in addition to owning an enviable portfolio of media assets that consists of both radio and TV stations, as well as a stake in professional sports teams.

But how does Rogers pose as an investment option? Let's take a look at what the company offers as well as its most recent quarterly update.

Quarterly results are strong

Revenue in the most recent quarter saw gains of 3% over the same quarter last year, while EBITDA also saw growth of 8% in the same period.

The growth was impressive enough for the company to raise full-year guidance numbers for both adjusted EBITDA and free cash flow for the remainder of the year.

Rogers internet segment also realized promising growth of 35,000 net additions in the quarter, surpassing the same period last year.

Wireless subscriber growth remains a top priority for telecoms, and the two primary metrics of concern for telecoms are subscriber growth and churn. Rogers came in strong on both of these, with post-pay churn reflecting the best numbers in nearly a decade.

The future of wireless in Canada

In a recent interview, Phil Lind, vice-chairman of Rogers alluded to the point that the telecom sector in Canada is bound to undergo some consolidation, particularly seeing that Rogers' telecom peers south of the border are already undergoing billion-dollar mergers.

According to Lind, part of the problem is that there are too many telecoms in the market given Canada's market size. Apart from Rogers, the two other large telecoms are steadily welcoming a third major competitor through **Shaw Communications**' Freedom mobile, which is posed to be a major disruptor for the sector by offering attractive pricing, contract-free terms, and a real alternative to the incumbent three big telecoms.

While the threat from Shaw is real, there's also a major opportunity emerging: 5G.

5G networks offer next-generation connectivity options for wireless users, which effectively translates into better coverage, substantially more connectivity options and data transfer speeds that far exceed anything on the market today.

For consumers, those enhancements will help usher in a wave of IoT and VR experiences, as well as finally enabling the bandwidth necessary for a truly autonomous driving experience.

Rogers is currently testing 5G networks in both Toronto and Ottawa, and major carriers and device manufacturers around the world are targeting 5G devices to be on the market and supported within the next year.

Should you invest in Rogers?

There's plenty to love about Rogers, but the investment may not fit the stereotype that a typical telecom-seeking investor wants.

On the one hand, Rogers offers incredible growth prospects, and the company's transformation to grow subscribership and retain customers is taking hold. In a similar vein, Rogers' new IPTV offering is a highly-anticipated solution that customers have been asking for and should begin to show significant growth over the next few quarters.

In other words, Rogers is a great growth-focused investment if that's what you're looking for.

On the other hand, as an income investment, Rogers does offer a respectable quarterly dividend that yields 2.88%, but Rogers hasn't provided a hike to that dividend in some time, resulting in its peers offering a better return as an income investment.

In short, if your focus is growth, Rogers is a great stock to buy and watch grow, but if your primary objective is income, you may be better off selecting another investment.

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