Rogers Communications (TSX:RCI.B): Buy, Sell, or Hold?

Description

The Canadian telecom sector is a treasure trove of high-dividend-paying cash cows. A handful of companies dominate the wireless communications market, and just three companies account for a whopping 94.5% of the total market.

One of those three is **Rogers Communications** (TSX:RCI.B)(NYSE:RCI). Shares are up 27% since 2017, while earnings have grown 20.3% in just the past one year. Rogers currently trades at $72.70, implying a market capitalization of $37.4 billion and a dividend yield of 2.82%.

That dividend yield isn't as high as investors have come to expect from the Canadian telecom sector. The other two major players, **BCE** and **TELUS**, yield 5.6% and 4.85%, respectively. In fact, Rogers's dividend isn't even that much higher than the yield on a 10-year Canadian government bond, which currently hovers around 2%.

One of the reasons the dividend yield is comparatively low is because Rogers is using much of its free cash flow to pay down debt. Debt was at an all-time high back in 2016, when the company was compelled to temporarily suspend the dividends and focus on the burden.

Since then, the debt-to-equity ratio has plunged substantially. Rogers now has nearly $2 of debt for every dollar in shareholder equity. However, the same ratio for BCE and TELUS is 1.2 and 1.4, respectively, which indicates there's a long way to go.

With this in mind, why would an income-seeking investor pick Rogers over its bigger, high-paying rivals? In my view, investors need either higher earnings growth or better valuations in the near future to be compensated for holding a lower dividend yield today.

In terms of earnings growth, it's difficult to see how Rogers can have higher organic growth than its rivals since they already control nearly all of the market share. Pricing power, too, may suffer with the entry of newer, smaller rivals like **Shaw Communications**, the race towards 5G upgrades, and the upcoming spectrum auctions that could fragment the market.

Meanwhile, Rogers trades at nearly the same multiples as its rivals. A price-to-earnings ratio of 14.72

is not that far from the industry average of 15.

Rogers’s dividend payout ratio of 48.12% is half that of its rivals. The company may have to keep the payout ratio low for the next few years, so it can bring its debt-to-equity ratio in line with others. This reduces the cash the company has to invest in future technologies like 5G.

In summary, Rogers’s debt burden is a tragedy for investors. This is a cyclically capital-intensive industry at the precipice of an evolution and Rogers doesn’t have the firepower required to keep up with rivals. Meanwhile, the risk of regulators breaking up the telecom oligopoly is likely to increase in the coming years.

Bottom line

Rogers is stuck between a rock and a hard place, which makes it the worst investment of the top three telecom companies in Canada at the moment. Income-seeking investors should look elsewhere for higher dividends and better prospects.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:RCI (Rogers Communications Inc.)
2. TSX:RCI.B (Rogers Communications Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/27
Date Created

2019/02/15
Author
vraisinghani