A Tech Stock With Growing Dividends You Should Consider Buying

Description

Tech companies aren't known for their generous dividends. However, that doesn't mean income-oriented investors can't find gems in the tech industry. Let's look at **Cogeco Communications** (TSX:CCA), a tech firm with the potential to offer dividend increases for many years to come.

Core operations

There is much to like about Cogeco. The firm is one of the largest broadband providers in Canada and possesses strong operations in the U.S. Though Cogeco does not dominate in either market, its geographical diversification is a strength. Cogeco operates primarily in two segments: Canadian Broadband Services and American Broadband Services.

The former of these — Canadian Broadband — is responsible for about 55% of the company's revenues. During its latest reported quarter, Q2 2019, this segment saw modest revenue increases of 0.8% year over year primarily due to higher pricing. This also led to a 2.2% increase in its earnings before expenses, taxes, depreciation, and amortization (EBITDA). However, the firm incurred a net decrease in the number of customers for its telephone and video services.

Cogeco's American Broadband segment typically brings in about 45% of the company's revenues. For the second quarter of the current fiscal year, this segment posted strong revenue growth of 25.1% year over year. Its EBITDA saw a similar increase at 28.6%. This growth was primarily due to higher pricing as well as a net increase in the number of its customers.

Cogeco's segment south of the border has been gaining ground recently. Note that Cogeco recently sold its Business ICT segment, which was by far its lowest-margin one. The firm is now focused solely on providing broadband services in the U.S and Canada. This should boost Cogeco's efficiency in the long run.

Dividends

Over the past four years, Cogeco's dividend per share has increased by about 58%, or by an annual average of about 14.5%. The company currently offers a dividend yield of 2.4%, and a very conservative 37% payout ratio. Though Cogeco seems to not be as generous with its dividends as some of its main competitors (at least at first glance), with increasing revenues and profits and such a low payout ratio, the firm seems capable of continuous dividend increases.

Is it a buy?

Should you buy Cogeco at current levels? It is worth noting that last year, the firm shed a (somewhat) significant portion of its share value, as did many stocks. Since the beginning of the year, the tech company has been defying gravity, again — a common trend on global equity markets.

Cogeco traded at a very attractive valuation just a few months ago, and although it is currently trading at 16.50 past and 12.57 future earnings — which isn't bad at all — the stock isn't the bargain it once was.

Still, with more efficient core operations after the selling of its ITC Business segment, solid earnings growth prospects, and ample space to increase its dividends, there are enough good reasons for investors to strongly consider purchasing shares of Cogeco.

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Date
2025/09/09
Date Created
2019/05/31
Author
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