Cogeco Communications (TSX:CCA) vs. Cogeco (TSX:CGO): Which Is the Better Buy?

Description

The telecommunications space continues to be an exciting area to invest, and cable seems to be a top sub-sector in the industry. After a few years of cable stocks selling off due to the market's nervousness about the risk surrounding cord cutting, it seems as though the negative affects won't be as bad as anticipated.

When looking to invest in solid growth companies today, a top company to consider is **Cogeco** (TSX:CGO). Investors may be confused between the two companies listed on the TSX. **Cogeco Communications** (TSX:CCA) is a separate stock all together, but what is the difference, and which is the better buy?

Cogeco

Cogeco is a Canadian telecommunications and media company headquartered in Montreal that serves residential and commercial customers through its subsidiaries.

Although its market cap is smaller than Cogeco Communications, it is the parent company. In addition to owning 31.7% of equity shares and having 82.3% of the voting rights in Cogeco Communications, it also owns Cogeco Media, a radio broadcaster in Quebec.

Cogeco Media has 23 different radio stations and is focusing on expanding its footprint and grabbing more market share. At the end of May, Cogeco Media had trailing 12-month revenue of $111 million.

Cogeco's market cap is roughly $1.3 billion, it's trading at a P/E ratio of 11 times, and it pays a dividend that yields around 1.85%.

Cogeco Communications

Cogeco Communications has a market cap of $5.2 billion, a P/E ratio of 13 times, and a dividend that yields about 2%. It's been in business since 1972 and is growing itself through acquisitions and organic growth.

Its main operations are in Canadian and American broadband. Its Canadian operations consist of Cogeco Connexion. Cogeco Connexion is the second-largest cable operator in Ontario and Quebec, with over 1.7 million households and 150,000 business customers.

Cogeco's American broadband company is Atlantic Broadband. Atlantic operates all along the east coast and is the ninth-largest cable operator in America. Its customers consist of over 875,000 houses and 185,000 businesses.

Cogeco Communications recently sold Cogeco Peer 1 earlier in 2019 for $720 million, giving it a gain on disposal of $82.4 million. Cogeco Peer 1 was a business-to-business IT provider, but it did only a small segment of the company's revenue.

The sale allows it to focus solely on its Canadian and American broadband segments. It also gives the company extra cash to pursue acquisitions or invest in organic growth.

For the nine months ended May 31, it had revenue of $1.75 billion and EBITDA of $832 million, giving it an EBITDA margin of nearly 50%.

Total diluted earnings per share came out to $6.54, and the dividends amounted to $1.58.

Bottom line

Cogeco is an ideal investment for those who believe that cable will remain strong in the future. A few years, ago these stocks were sold off hard, as the market was concerned with the risk of cord cutting.

The cable companies have managed to innovate and retain more customers than was expected, and now if you are bullish on cable, Cogeco is a top stock to buy.

While both stocks track very similarly to each other, I would choose CCA over CGO, since CCA has the larger market cap, and its stock has more liquidity, which can be an important factor.

I also don't necessarily want or need exposure to its radio assets, but for investors who don't mind the lower liquidity and want exposure to the radio assets, I would recommend CGO.

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