
# Here Is the Most Worrying Thing About Rogers Communications (TSX:RCI.B) Stock

## Description

The past 12 months have not been so kind to **Rogers Communications** (TSX:RCI.B)(NYSE:RCI ), one of Canada's largest telecom operators. Its stock has massively underperformed its main rival **BCE**, and there seems little excitement going forward.



At the time of writing, Rogers stock was hardly changed during the past year, while BCE has gained more than 24% during that time. The main reason for this weakness is the company's weak growth in its wireless business — a main contributor to its growth.

Rogers is Canada's second-largest telecom company, but it has the largest market share of the country's growing wireless segment, dominating about a third of the market's revenue and subscribers.

In the latest earnings report, which the company released in July, Rogers said it added 77,000 contract wireless customers in the quarter, down from 122,000 in the same period last year and well short of average analyst expectations in the range of 80,000-85,000.

The decline comes after **Shaw's** regional carrier Freedom Mobile added 62,000 new subscribers in the three months ended May 31, up from 47,000 during the same period in 2018.

## Strong demand for wireless services

If you're not familiar with the Canadian telecom market, then you should make a note that it's very different from what there is south of the border. In Canada, the market is mainly controlled by three top players who serve a growing population with strong demand for wireless services.

Rogers drives about 57% of its revenue from the wireless segment of its business. This segment has been under pressure ever since Shaw acquired Wind Mobile, challenging the dominance of the "Big Three" players.

The second-quarter weakness that comes after equally dismal period that ended in March, suggests that it will be tough for Rogers to make more money when competition is intensifying and customers have more options available.

The main concern for investors at this point is if this sluggish wireless growth is a new normal. Or will growth come back?

Rogers does not attribute the result to increased competition, saying it added fewer subscribers as a consequence of “overall softness in the market” and its own “disciplined” approach, suggesting it offered fewer incentives, such as large handset subsidies or promotional deals on data plans to win customers.

According to **Canaccord Genuity** analyst Aravinda Galappatthige, the second-quarter numbers met profitability expectations but came up short on new subscriber additions. He expects the wireless market to face some volatility over the next few quarters.

Rogers stock currently offers an annual dividend yield of 3%, the lowest among the Big Three telecom operators. But that doesn’t tell us the complete story. On a total returns basis, Rogers produced 57% during the past five years — the highest return when compared to other players.



## The bottom line

Rogers Communications is a solid telecom stock that’s going through a tough patch right now. But that weakness, in my opinion, is a buying opportunity. As I emphasized in my earlier articles, the stock isn’t a short-term bet. You should be prepared to hold this stock for the next five to 10 years to make some handsome returns.

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