Buy This Beaten-Down Telecommunications Stock Now for Supercharged Growth in 2020

Description

I'm going to get to the point right away on this stock because I think it is a great buying opportunity and smart investors need to take a hard look at it at these stock price levels. I'm talking about **Rogers Communications** (TSX:RCI.B). For the life of me, I can't figure out why it has done so poorly relative to its cousins Bell and Telus over the last year or so.

Rogers is deeply embedded in Canadian culture as well as Canadian households. Rogers currently touches about 96% of Canadians through its wireless, wireline, cable and other media offerings. This sounds an awful lot like another stock pick of mine, Canadian Tire, which has a deep reach into the Canadian consumer and is going to use that to its advantage to continue to grow long term.

As far as I can tell, the 2019 financials look solid and show growth in all the key metrics relative to 2018. The only slightly dark cloud I can see is the fact that postpaid wireless subscriber growth was 77,000 accounts versus analysts estimates of about 100,000. The market has sold off Rogers based on this one metric.

No one would argue with the fact that wireless subscriber growth is a long-term customer-centric metric that matters hugely to the future of these telecommunications companies in Canada, but the investing community is being a bit unfair to Rogers.

Average revenue per user (ARPU) is king

The company that gets the most wireless subscribers will win over the long term, period. But what the market has gotten wrong is that Rogers did grow their wireless base and grew it meaningfully.

The other area that matters for a telecommunications company's profitability is a metric called average revenue per user (ARPU), and Rogers has been a little bit underwhelming on that front at $57. For context, Telus ARPU is hovering around $60, which is where Rogers needs to be.

Despite the ARPU being lower than other benchmarks, it's worth noting that it did increase from $56 to

$57 from 2018 to now, which means it is going in the right direction.

What these ARPU metrics show us is that Rogers was aggressive in their pricing to get new customers but its new customer count was a little bit underwhelming. That's a bit of a double whammy because analysts expected the aggressive pricing to bear fruit in the form of much greater gains in new customers.

The reality is that ARPU will grow steadily as more customers adopt the ultimate data packages starts at $75 per month. Given how deeply Rogers is ingrained into Canadian every life, I don't anticipate this to be a hurdle for the company.

Cash flow doesn't lie

Fools who regularly read my market commentary will know that I love companies that throw off tons of free cash flow (FCF) and have the ability to generate growth in this area. Cash allows a company to do good things, like increase dividends for its shareholders or buy back its own stock.

Rogers grew its FCF from $1,685 million to $1,771 million between 2017 and 2018, which represents a 5% growth. What's more, the company had $1,014 million in FCF for the first six months of 2019, which means it's roughly on track to hit $1,900 to $2,000 for full-year 2019.

In fact, the company has issued forward-looking guidance on its 2019 FCF, putting it at an estimated $2,134 for the year. Even if we are conservative and assume that full-year FCF is $1,900, that still represents a 7% year over year growth, which shows acceleration.

The final verdict

Rogers stock is trading hands at $64 right now, the cheapest it's been since June of 2018. With a forward P/E ratio of around 14, I believe this superb cash flow machine has been unfairly beaten down.

Rogers has been aggressive on pricing and has made other investments to set itself up for a better future, which may lead to short term turbulence, but is a net positive in the long run.

Smart investors will do well to start nibbling at the stock at these prices and accumulate shares as they stay in the $62 to $64 zone for a very happy 2020 when the company's 2019 investments start bearing fruit.

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