Is It Time to Sell Some of Canada's Best Dividend Stocks?

Description

Canada's telecom stocks, considered among the best dividend payers, fell in sync yesterday after the industry leader, Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI), posted a disappointing third-quarter earnings report.

The results produced a huge negative surprise when Rogers reported that its shift to unlimited data pricing is hurting sales. Its stock plunged more than 8% after the earnings report yesterday, its worst single-day performance in more than six years.

But Rogers won't be the only stock facing the impact of this dramatic shift to do away with limited data plans. In anticipation of this, investors sent the stock prices of all top telecom stocks lower, including **BCE Inc.,** thereby threatening the stability of the once great source of income for investors seeking shelter via telecom utilities.

What worried investors after seeing Rogers earnings is that the financial impact of Rogers' unlimited data wireless plans was much higher than anticipated. More than one million Canadians signed up under the new pricing model – three times what Rogers expected by this point.

As a result, its third-quarter financial results were dragged down a $50-million reduction in overage fees, causing the quarter's profits to miss analysts forecasts and forcing Rogers to reduce its full-year revenue and earnings guidance.

Future growth is uncertain

Revenue from wireless services fell by 1.6% over the same quarter last year. With the Q3 earnings, Rogers also announced to reduce its forecast for 2019 sales growth to between a decline of 1% and a gain of 1%, a substantial adjustment from the previous guidance in the range of a gain of 3% to 5%.

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

By moving to unlimited data plans, Canada's largest and best telecom companies are giving away a lucrative source of revenue. In 2017, Canadians paid a total of $1.2-billion for exceeding their data caps.

These charges have also attracted political scrutiny, as regulators and policy makers blamed these overage fees as one of the reasons for the relatively high cost of mobile phone service in Canada.

Liberals, who won in the latest federal elections and the possible coalition partner, the National Democratic Party (NDP) have promised in their election speeches to help cut the telecom bills for Canadians.

Other Canadian telecom providers have also introduced unlimited data plans, and they will likely see their earnings hurt from this shift.

Rogers Chief Executive Joe Natale didn't mince words yesterday, telling analysts that more bad news is ahead as the company changes its offerings.

"This dynamic was both unsustainable and limiting to our future," Mr. Natale said in a conference call with analysts. "Canadians had become increasingly afraid to use data given the evolution of overage rates in our industry."

Bottom line

Rogers Communications and other top telecom stocks are solid income stocks, offering one of the best avenues for dividend investors to earn income. There's doubt that these stocks are going through a tough patch right now. But that weakness, in my opinion, is a buying opportunity.

As I emphasized in my earlier articles, these stocks aren't a short-term bet. You should be prepared to hold these stocks for the next five to 10 years in order to make some handsome returns.

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