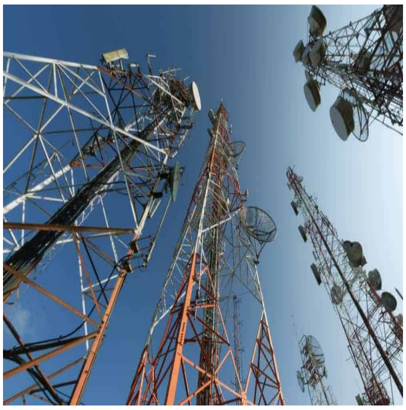

Investors: Is This 1 Telecom Stock a Buy?

Description

Cogeco (TSX:CCA) is a communications company operating in Canada under the Cogeco Connexion name in Quebec and Ontario and in the United States under the Atlantic Broadband brand (in 11 states).

The company provides residential and business customers with internet, video, and telephony services through its two-way broadband fibre networks. **Cogeco Inc.** is the ultimate parent of Cogeco Communications and holds 31.8% of the equity shares that represent 82.3% of the voting rights.

Cogeco reports a market capitalization of $1.47 billion with a 52-week low of $57.49 and a 52-week high of $107.88

Intrinsic price

Based on my calculations, using a comparable company analysis valuation model, I determined that Cogeco has an intrinsic value of $81.13 per share.

The price at the time of writing is $102.92, which suggests Cogeco is substantially overvalued. RRSP and TFSA investors looking to buy shares of a telecommunications company should avoid Cogeco for the time being.

Cogeco has an enterprise value of $7.8 billion, which represents the theoretical price a buyer would pay for all Cogeco outstanding shares plus its debt.

Highlights

For the fiscal year ended August 31, 2019, Cogeco reports a strong balance sheet with $1.1 billion in retained earnings, up from $851 million as at August 31, 2018.

This is a good sign for investors, as it indicates the company has had more years of cumulative net income than net loss, which subsequently gets reinvested into the company.

Cogeco reports shareholders’ equity of $2.2 billion, goodwill of $1.4 billion, and intangibles of $2.9 billion for tangible net worth (TNW) of negative $2 billion. This is not ideal, as the TNW represents the real value of a company.

Revenue for the year is up substantially to $2.3 billion from $2.1 billion in 2018 (+8.6%), which is offset by increased cost of goods sold and SG&A expenses resulting in pre-tax income of $441 million, up from $367 million in 2018 (+20%).

Cogeco finished the year strongly with net income of $432 million, up from $360 million in 2018 (+20%), which helped to bolster the company’s retained earnings.

From a cash flow perspective, capital-expenditure spending is down to $435 million from $458 million in 2018 (-5%), which could suggest a slowdown in growth in coming years.

Management takes a proactive approach to keeping the debt under control, as indicated by a $444 million repayment on its revolving facilities in 2019 complemented by repayments of long-term debt amounting to $78 million in 2019 and $1.3 billion in 2018. This is offset by the issuance of $2.1 billion of debt in 2018.

The company has a normal course issuer bid in place, whereby it repurchased and cancelled $32 million of subordinate voting shares in 2019. This is often a strategy used by senior management to indicate it believes the current share price is undervalued.

Cogeco is a dividend-paying entity with a current dividend yield of 1.85%.

Summary

Investors looking to buy shares of a telecommunications company should avoid Cogeco for now. At its current share price of $102.92, I believe it is trading at a premium compared to an intrinsic value of $81.13.

The company reports solid financials with positive retained earnings, increased net income, and an adept management team keen on reducing its debt. Investors looking to buy shares of Cogeco should follow the stock through 2020 and wait for an opportunity to buy in at less than intrinsic value.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CCA (COGECO CABLE INC)

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Category

1. Investing

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