Forget Banks: Buy This 1 Stock Instead!

Description

Rogers (TSX:RCI.B)(NYSE:RCI) is a diversified Canadian communications and media company with most of its operations in Canada.

The company reports three operating segments, which include wireless, cable, and media. The first two segments are operated by the wholly owned subsidiary, Rogers Communications Canada Inc., alongside other wholly-owned subsidiaries.

The media division is operated by the wholly owned subsidiary, Rogers Media Inc. and its subsidiaries. Rogers reports a market capitalization of $33 billion with a 52-week low of $60.06 and a 52-week high of $73.82.

Intrinsic price

Based on my calculations, using a comparable company analysis model, I've determined that Rogers has an intrinsic value of $67.72 per share.

At the current share price of $64.54, I believe Rogers is slightly undervalued. Investors looking to buy shares of a telecommunications company for their TFSA or RRSP should look into buying shares of Rogers.

Rogers has an enterprise value of $50.7 billion, which represents the theoretical price a buyer would pay for all of Rogers's outstanding shares plus its debt.

Financial highlights

For the nine months ended September 30, 2019, the company reported a strong balance sheet with $7.7 billion in retained earnings. This is a very good sign for investors, as it suggests the company's surpluses in previous years have been reinvested to fuel growth.

Given shareholders' equity of $9.6 billion, goodwill of $3.9 billion, and intangible assets of $8.9 billion, the company reported a tangible net worth of negative $3.2 billion. This is not ideal, as tangible net worth represents the real value of a company.

Overall revenues are flat year over year at $11.1 billion in 2019 compared to $11.1 billion in 2018 (-0.3%) coupled with flat cost of goods sold and SG&A, resulting in pre-tax income of $2.119 billion for 2019 compared to $2.133 billion in 2018.

Rogers ended the period with net income of $1.6 billion compared to $1.6 billion in 2018.

From a cash flow perspective, the company increased cash from operations to $3.4 billion from $3.2 billion in 2018 largely due to an increase in depreciation and amortization.

Capital-expenditure (capex) spending increased to $2.016 billion from $1.962 billion in 2018 (+3%), indicating that Rogers is investing in its growth. This is a good sign for investors, as increased capex spending suggests that Rogers anticipates increased demand for its products and services in the future.

Further to this, management executed its normal course issuer bid in 2019 by purchasing and cancelling $294 million of Class B Non-Voting Shares.

Rogers is a dividend-paying entity with a current yield of 3.1%, which is achieved by a quarterly dividend of $0.50 per share.

Foolish takeaway

Investors that are looking to diversify into the telecommunications industry should consider buying share of Rogers. At the current share price of $64.54 compared to its intrinsic value of $67.72, I believe Rogers is trading at a discount.

Aside from its intrinsic value, it reported solid financials with increasing retained earnings, consistent profitability, and investments in itself (as suggested by the increase in capex spending by +3%).

Management also has a normal course issuer bid in place, which is often a tactic that is used to indicate the share price is currently undervalued. With a 3.1% dividend yield, RRSP and TFSA investors looking for a telecom stock should seriously look into buying shares of Rogers.

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1. Editor's Choice

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