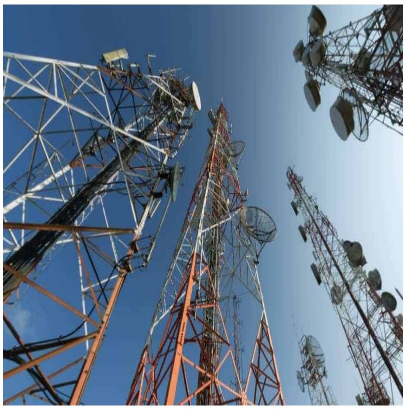

1 TSX Telecom Stock to Buy and Hold for Decades

Description

The global financial markets have bounced back strongly from March lows amid an improvement in investors' sentiments. The S&P/TSX Composite index had recovered over 39%. However, some of the companies, such as **Rogers Communications** (TSX:RCI.B)(NYSE:RCI), were left out of this rally and currently present excellent buying opportunities. The communications and media company has just increased by 18.2% from its March lows.

During the first quarter, Rogers reported a decline in its revenue and EPS, which limited its upside momentum. The waiver of certain charges during the pandemic, lower overage revenue due to customers' migration towards unlimited data plans, and decline in advertising and sports revenue had dragged the company's numbers down.

However, I believe the weakness in Rogers to be short-lived. The increased demand for Rogers's services due to the rise in people working from home, the launching and expansion of the 5G service, strong liquidity, and depressed valuation could drive the company's stock price.

Growth drivers

As an increased number of people started to work from home due to the pandemic, Rogers's network traffic was up by 50% in the first quarter. I believe this trend to continue, as the number of infections is still high, and more businesses are opting for remote work.

In the first quarter, its adjusted EBITDA margin expanded by 1.9% due to cost efficiencies and productivity initiatives. I expect these improvements to drive the company's numbers further once the waivers are not in place.

Also, there has been an increase in customers shifting towards higher-margin internet services. For instance, 68% of Rogers's customers have opted for services which provided a download speed of 100 megabytes per second or more in 2019 compared to 60% in 2018. This migration could rise further going forward, supporting the company's margin expansions.

Rogers was the first company to launch a 5G service in Canada. In January, the company started the service in Toronto, Ottawa, Vancouver, and Montreal. Meanwhile, it has planned to expand the service to 20 other markets by the end of this year. The 5G service offers more bandwidth, allowing faster data transfer, and provides consistent and higher-quality coverage even in remote areas. So, I believe Rogers to have an early-mover advantage in this service category.

Liquidity and dividend yield

Despite the weak first-quarter performance, Rogers's free cash flow increased by 14.1% to $462 million. Meanwhile, its cash and cash equivalents stood at $1.9 billion. Also, the company has access to bank credits worth $1.9 billion, thus raising its liquidity to $3.8 billion. So, the company is well capitalized to fund its growth initiatives.

Apart from paying dividends, Rogers also rewards its shareholders through share repurchases. Last year, the company had repurchased 9.9 million shares and paid dividends worth $1.02 billion. On April 21, the company's board had announced quarterly dividends of $0.5 per share, which represents an annualized payout rate of $2 per share. As of July 3, Rogers's dividend yield stood at 3.6%.

Bottom line

Despite the strong growth prospects, Rogers trades at a discount. As of July 3, the company was trading at a forward P/E multiple of 14.7 compared to its average P/E multiple of 15.4 over the last three years. Meanwhile, its peers **BCE** and **Telus** trade at a higher forward P/E multiple of 17 and 17.2, respectively.

So, given the strong growth prospects, high liquidity, and depressed valuation multiples, I am bullish on Rogers. Also, Insider Monkey had recently stated that hedge funds are taking more interest in the stock. It reported that 16 hedge funds had Rogers in their portfolios at the end of March.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. NYSE:RCI (Rogers Communications Inc.)
2. TSX:RCI.B (Rogers Communications Inc.)

PARTNER-FEEDS

1. Business Insider
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