EARNINGS UPDATE: You Would Regret Not Buying This Amazing TSX Stock Right Now

Description

The Montreal-based **Cogeco Communications** (TSX:CCA) announced its third-quarter fiscal 2020 results on Thursday. The telecom and media company reported a nearly 48% year-over-year (YoY) drop in its earnings to $1.87 per share. However, it was slightly higher as compared to Bay Street analysts's estimate of $1.85.

Despite a sharp decline in its quarterly earnings, Cogeco Communications's overall results managed to impress investors, as its stock has been trading on a positive note. Yesterday, its stock settled with minor 0.2% gains. Nonetheless, it surged by nearly 7% this morning.

Let's explore what could be driving this optimism before we discuss why its stock could be a great buy right now.

Cogeco Communications's latest earnings

In the quarter ended May 31, 2020, Cogeco Communications's revenue rose by 3.1% YoY to $605.8 million. It was also better than analysts' expectation of $592.5 million. During the quarter, the Canadian broadband services segment generated about 53% of the company's total revenue as compared to 55% in the previous quarter. The remaining 47% of the revenue in Q3 came from its American cable services segment against 45% in Q2.

Despite upcoming U.S. elections, the company's advertising revenue dropped due to reduced political advertising at its American broadband subsidiary. Due to the ongoing pandemic, most organizations — across the globe — have cut their advertising expenditure lately.

On the one hand, Cogeco Communications's growth in new connections for video and telephonic products segment slowed in the last quarter. On the other hand, its disconnection rate for these products also fell — leading to a stable customer base.

Stronger EBITDA in Q3

Cogeco Communications reported a rise of about 4% YoY in its adjusted EBITDA to $294.7 million in the second quarter. With this, the company's adjusted EBITDA margin expanded to 48.7% as compared to 48.3% a year ago and 47.3% in the previous quarter. While Atlantic Broadband — Cogeco Communications's U.S. market brand — registered a positive EBITDA growth, its Cogeco Connexion subsidiary's profitability slightly weakened in the last quarter.

The company has not provided any clear outlook for the fourth quarter due to coronavirus-related uncertainties. However, it expects a low single-digit percentage positive growth in its fiscal 2020 revenue and adjusted EBITDA.

Continuing business expansion

Irrespective of the ongoing challenges due to the pandemic, Cogeco Communications is continuing to acquire new smaller companies to expand its business. In May, Cogeco Connexion completed the acquisition of iTéract — a telecom company in southern Québec for $16 million. Previously in May, its Atlantic Broadband arm acquired Thames Valley Communications — a Connecticut-based broadband service provider — in a US$50 million deal.

Foolish takeaway

In its third-quarter report, Cogeco Communications highlighted that the demand for its high-speed internet products has risen in the last few months. These products are attracting new customers, and many existing customers are upgrading their subscription packages. I expect this positive trend to continue in the near term, as many people continue to work remotely. It should help Cogeco Communications sustainably improve its profitability.

Surprisingly, its stock has underperformed the broader market in 2020. As of July 16, it has lost 12.2% as compared to a 6.1% loss in the **S&P/TSX Composite Index**. In my opinion, Cogeco Communications — being an essential services provider amid the ongoing pandemic — should have easily outperformed the broader market. Many investors seem to have ignored its solid profit margins, stable business model, and positive future outlook so far.

These are some of the key reasons why you may want to buy Cogeco Communications stock right now and hold it at least for a couple of years to get handsome returns.

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