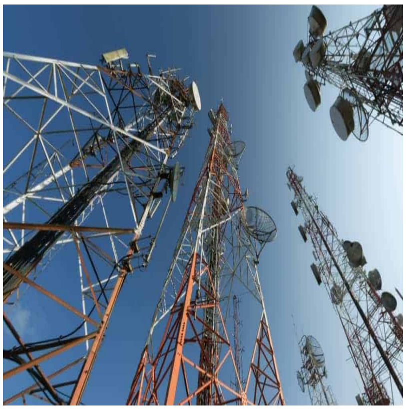

This Big Canadian Telecom Stock Popped 11% Yesterday: Should You Jump in?

Description

The big Canadian telecom stocks don't usually experience big moves. Yet, yesterday, **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) stock rallied more than 11%.

Rogers is the third-largest Canadian telecom based on enterprise value. The rally was triggered by Rogers's third-quarter (Q3) revenue and earnings that beat the analyst consensus estimates.

A quick overview of Rogers today

Rogers's business remains resilient in today's environment. Canadians still want to be connected wirelessly through the pandemic, and Rogers is there to serve them as the largest wireless provider in the country. Its products and services reach 96% of the population.

The Wireless segment is the bulk of its business, contributing to about 61% and 68%, respectively, of the company's revenue and adjusted EBITDA, a cash flow proxy.

Although the telecom experienced a drop in revenue and earnings, it remained profitable and was able to tweak its capital spending to boost free cash flow (FCF).

In the past few years, Rogers used more than 60% of its operating cash flow for capital spending. These investments include expanding its 5G network that covers 130 cities and towns. (It boasts to have the largest 5G network in the country!) It has significantly reduced capital spending to about 40% in the last two quarters, thereby, elevating free cash flow.

Its balance sheet also stands strong with a $5.5 billion liquidity position. And Rogers is awarded an investment-grade S&P credit rating of BBB+.

The telecom's actual business results

For the quarter, Rogers's revenue declined by 2.4% to $3,665 million versus Q3 2019. Adjusted

EBITDA dipped 4.3% to $1,638 million. Adjusted net income fell 11.9% to $548 million. Adjusted diluted earnings per share (EPS) shrunk by 9.2% to $1.08.

The telecom managed to boost free cash flow by 13.2% to $868 million. This was more than enough to cover the dividends of $253 million it paid for the quarter with plenty of FCF leftover.

The year-to-date results paint a bigger picture. Rogers saw a revenue decline in all its business segments. Particularly, the revenue for its Media segment experienced the biggest percentage plunge of 22.4% to $1,197 million. Thankfully, this segment only normally contributes to about 13% and 2%, respectively, of its revenue and adjusted EBITDA.

The overall revenue decline was 8% to $10,236 million versus the same period a year ago. Adjusted EBITDA declined by 8.9% to $4,267 million. Adjusted net income fell 24.6% to $1,225 million. Adjusted diluted EPS dropped 24.1% to $2.39. Rogers managed to marginally increase its FCF by almost 1% to $1,798 million.

Should you buy the telecom stock today?

Rogers stock sold off for most of this year. It seemed to have experienced a relief rally yesterday from results that were better than expected.

*Data by YCharts. A chart comparing the year-to-date stock price action of **BCE**, **TELUS**, and Rogers.*

From a bigger picture, Rogers stock didn't do much this year. In fact, it has underperformed its peers, as shown in the chart above. The rally has lifted Rogers stock to more closely align with the performance of its peers.

On the normalization of earnings and valuation, the telecom stock can appreciate another 10% or so while paying a safe yield of 3.4% over the next 12 months. This would be a decent return for conservative investors who are risk averse.

The Foolish takeaway

Big telecoms like Rogers tend to be low beta stocks with little volatility. The telecom stock won't experience another big rally unless the stock's valuation retreats again to be more attractive. Currently, I see the stock having another 10% or so upside over the next year while paying a solid dividend yield of 3.4%.

Interested investors might nibble here. Personally, I wouldn't take a big bite, as the general market is trading at near all-time highs but the macro environment is still recovering steadily.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

Tags

1. Editor's Choice

Date
2025/07/20
Date Created
2020/10/23
Author
kayng