What to Make of This 5G Stock Today?

Description

The telecommunications sector is one that exhibits a few key positive attributes for defensive investors. These stocks tend to be low-beta investments with above-average dividend yields. Income-oriented investors may therefore appreciate a stock like **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) today.

In this article, I'm going to discuss the pros and cons of investing in a company like Rogers in this current environment.

Secular trends bullish

One of the key growth areas for Rogers coming out of this pandemic will be the secular shifts we've seen as a result of this coronavirus pandemic. Increasingly, Canadians are working from home. This trend is unlikely to change. Data package upgrades and incremental profit-making off of plan add-ons could provide a nice near-term boost to Rogers' earnings potential. I expect we could see some earnings surprises on the horizon, something that would benefit existing shareholders greatly.

With the 5G rollout that has come, and the increased data usage related to streaming set to impact telco's like Rogers, there's a lot to like about this stock right now. These catalysts are key reasons to hold this stock for the long-term.

Dividend enticing, but perhaps not the best

Rogers' dividend yield is lower than its peers due to its perceived level of relative safety. The fact is that yield and quality tend to act inversely: investors pay for what they get. This is bullish for defensive investors who believe this sector may see some pain over the long-term if rates are capped by the Canadian government. That said, income investors may be better suited reaching for yield at a low risk premium with the company's two largest competitors if that is the investment goal.

Risks do exist with this stock right now

With capital inflows into growth sectors necessitating capital outflows from other defensive areas of the market, Rogers could be a net loser in this environment over the short-term. Investors may choose to get more aggressive if we do see economic conditions improve. Rogers is a stock that is still more than 10% off its pre-pandemic highs and about 20% below its all-time highs for a reason.

Bottom line

Rogers *does* have a meaningful dividend; however, in total return terms, this may be a stock that lags for a while. Capital appreciation may not materialize to the extent that some investors are hoping. With growth having such importance these days, capital flows into telco's may be limited. Accordingly, those looking to build a position in this stock should do so over time. Thus, a dollar cost averaging strategy may be best in this environment.

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Date
2025/08/21
Date Created
2021/01/07
Author
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