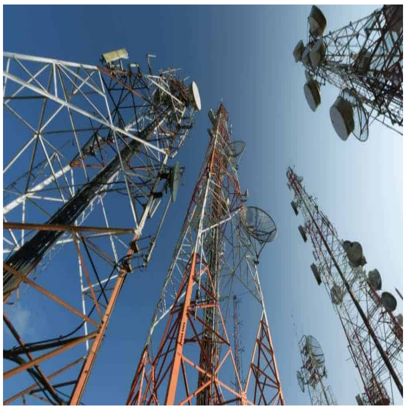

Better Telecom Stock: Rogers vs. BCE

Description

When it comes to Canadian telecom stocks, **Rogers Communications** (TSX:RCI.B) and **BCE** (TSX:BCE) are the undisputed heavyweights. With 10.6 million subscribers, Rogers is the biggest Telco in Canada, and BCE is right behind them with nine million. These two companies are household names in Canada. They're both quality companies that pay dividends and tend to enrich their shareholders over time. Between the two of them, which is the better buy?

The case for Rogers

A case for Rogers can be built on the fact that its stock is pretty cheap. Based on its current stock price, RCI.B is trading at the following valuation ratios:

- Price to earnings: 13.3
- Price to sales: 1.72
- Price to book value: 2.39 ("book value" means assets minus liabilities)

The same ratios for BCE are much higher:

- Price to earnings: 16.8
- Price to sales: 2.17
- Price to book value: 2.65

So, Rogers is a cheaper stock than BCE. And it's growing faster, too; over the last five years, RCI.B has grown its earnings at 10% per year, while BCE has grown its earnings at just 0.32%. So, this doesn't appear to be a case where one stock is more expensive than another because it has more growth potential: the faster growing stock is cheaper.

Another thing worth mentioning about Rogers is that it has the biggest 5G network in Canada. 5G is a new cellular standard that makes cell data transfers faster. It's thought to be a selling point for telcos that offer it because it gives their customers faster data connections. So far, Rogers 5G reaches 27 million Canadians, which is 71% of the population. BCE is slightly behind, claiming that its 5G network can reach 70% of Canadians.

The case for BCE

The case for BCE compared to Rogers is that it is dealing with fewer issues. This year alone, Rogers has found itself at the centre of a bitter family feud, a massive nation-wide outage, and the collapse of the Interac payment system (in Canada, Interac runs on Rogers infrastructure). All of these controversies added up to a tough year, which may be why RCI.B trades at a discount compared to BCE.

BCE has not been involved in as many controversies as Rogers over the years. Like most telcos, it does get some locals complaining about service quality, but that's nothing major. The biggest controversy in BCE's history was when it was about to go private, and a founding family member was going to get a bigger payout than other shareholders. That was controversial at the time, but nothing came of it.

It's also worth noting that BCE has a much higher dividend yield than Rogers. BCE's yield is 6.3%, while Rogers's is only 3.9%. If you like cash flow, you'll get more of it from BCE than Rogers. At least, you'll get more of it in the first year: sometimes dividends change over time.

Foolish takeaway

BCE and Rogers are both among Canada's most stable, dependable companies. Rogers has been embroiled in controversy and has gotten cheap as a result. BCE has a better image that gives it a richer valuation. An investor could do well with either one of these stocks.

CATEGORY

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2. NYSE:RCI (Rogers Communications Inc.)
3. TSX:BCE (BCE Inc.)
4. TSX:RCI.B (Rogers Communications Inc.)

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