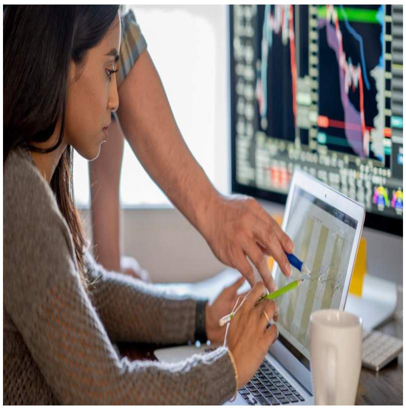

Rogers Stock Rose 10% in November: Is it a Buy Today?

Description

Telecom stocks changed course recently after their months-long weakness amid rising rates. Shares of Canada's biggest telecom company by subscribers, **Rogers Communications** (TSX:RCI.B), rose 10% last month, reaching its six-month highs.

Telecom stocks are perceived as defensives due to their less volatile stock price movements and stable dividends. However, these defensives were not that effective this year because of the rapid interest rate hikes.

Should you buy RCI.B stock?

In the last 12 months, Rogers stock has returned 9%. A large part of the stock's recovery came after mid-October on the hopes of slowing the rate hike pace. Peers **BCE** (TSX:BCE) and **Telus** returned a mere 2% each in the same period. While Rogers stock has outperformed peers in the last year, it has been a laggard in the last five years.

Rogers caters to more than 11 million wireless subscribers, the highest among the top three telecom players in Canada. It is the smallest company by market cap among these three. Canadian telecom is an oligopolistic industry, with close to one-third market share each.

Rogers derives its revenue from three main segments. Wireless contributes 60% to the total revenues. Media and Cable account for the rest, with 13% and 26% contributions, respectively.

For the third quarter of 2022, Rogers reported a net income of $371 million — a decline of 24% year over year. It has seen encouraging growth in the wireless segment this year. Year to date, Rogers has seen net wireless additions of 448,000 — up 137% from last year.

Rogers-Shaw Communication pending merger

The Rogers-**Shaw Communications** merger is uncertain, as approvals from key regulatory authorities are still pending. In August 2022, Shaw agreed to sell its wireless segment, Freedom Mobile, to Videotron. The sale will likely turn the case towards completing the transaction with an expected moderation in the market share.

If the merger goes through, it could substantially increase Rogers's scale and market position. It could accelerate the 5G rollout and, ultimately, top-line growth in the next few years. However, Rogers's balance sheet position could deteriorate. It is currently heavily indebted, and the transaction completion could further increase its leverage.

Moreover, incremental capital spending ahead of the 5G network expansion will likely drive the debt pile even higher. It currently has a debt-to-equity ratio of 3.3 and a debt-to-EBITDA ratio of over five. EBITDA stands for earnings before interest, taxes, depreciation, and amortization.

On the dividend front, Rogers yields 3% — the lowest among its peers. BCE and Telus yield 6% and 5%, respectively. Interestingly, all three leading carriers currently trade 20 times earnings and look fairly valued.

Bottom line

Rogers stock might trade subdued going forward, and the Shaw transaction could be delayed. Plus, how the profitability transforms with higher debt and increased capacity post-merger remains to be seen.

BCE looks better placed for long-term investors with its relatively lighter balance sheet and superior dividend yield. For the last few years, it has been aggressively spending capital on network infrastructure and 5G expansion. BCE's higher dividend visibility, fair valuation, and scale could create superior shareholder value in the long term.

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