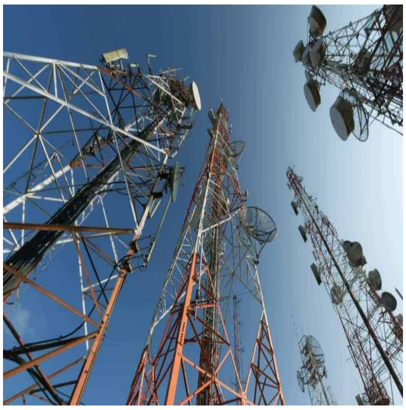

4 Things to Know About Rogers Stock

Description

Telecom stocks turned higher in Q4 2022 after big weakness earlier. Canada's third-largest telecom stock by market cap **Rogers Communications** (TSX:RCI.B) has gained 26% since October, beating its peers. An imminent slowing pace of interest rate hikes has supported telecom names of late, fueling their recent rally.

If you want to invest in Rogers Communications stock, here are key things you must know.

Financials

Though Rogers is relatively smaller in the three-player dominated Canadian telecom industry, it has the biggest base of over 11 million wireless subscribers. Telecom is a highly regulated industry and offers safety and reliability. Rogers reported 4% earnings growth compounded annually in the last five years.

While this is pretty slow growth compared to broader markets, it's very common among telecoms. Due to such low-risk operations, Rogers has managed to pay stable dividends over the years. It currently yields 3%, the lowest among the three.

Rogers plans to invest $20 billion over the next five years in capital projects. This will largely go towards network improvements and 5G expansion. While this aggressive capex plan might pay off in the long term, it will likely increase the company's leverage.

Rogers is already among some of the debt-heavy companies in the sector. Its pending deal with **Shaw Communications** (TSX:SJR.B) and capex plan will likely increase the debt burden significantly.

At the end of Q3 2022, Rogers had debt-to-equity of over 300% and debt-to-EBIITDA close to 6x. EBITDA stands for earnings before interest, tax, depreciation, and amortization.

Shareholder total returns

Rogers' stable dividends and the slow-moving stock has created steady shareholder wealth over the years. In the last five years, it has returned 30% and 110% in the last 10 years. In the same period, **BCE** (TSX:BCE) returned 40% and 146%, respectively. BCE is the largest of the three telecoms by market cap and yields the highest at 6%.

Rogers-Shaw deal

The deal between Canada's third and fourth largest telecom companies is still uncertain even two years after the announcement. The parties have agreed to sell Shaw's wireless segment Freedom Mobile to Videotron to maintain the competitiveness of the industry.

Shaw has already announced that it is unable to compete on its own and must combine with Rogers. Despite the recent uncertainties, the merger will likely go through. It will provide Rogers with scale and expansion in Western Canada.

Valuation

Rogers stock is currently trading at 21 times its earnings and looks a tad overvalued compared to peers' average of 20x. Its relatively lower yield, high debt burden, and rich valuation could keep new investors at bay.

Investing in growth

Note that telecom stocks are not for everyone. They generally underperform in bull markets and beat during bear markets. While they lack growth, their stable dividends and less volatile stocks make them relatively safer investment options.

So, if you are looking for a stable, income-seeking option, telecom names are attractive bets. However, if you are an aggressive investor, high exposure to growth stocks and low to these defensives makes more sense.

BCE looks more appealing to me right now because of its higher yield and scale. Its higher capex plan could drive decent earnings growth in the next few years, creating notable shareholder value.

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