Rogers Communications: Can the New CEO Make a Difference?

Description

Rogers Communications Inc (TSX:RCI)(NYSE:RCI) announced the first full-year results with CEO Guy Laurence at the helm. During this time he outspent his main competitors on the 700 MHz auction with a $3.3 billion outlay and made a multibillion-dollar investment in NHL broadcasting rights. His key strategic objective is to be to enhance customer experiences and focus on higher value customers. It has yet to bear fruit.

Not a good year for Rogers but some improvement in the final quarter

Net profit for the fourth quarter amounted to $355 million which, on an adjusted basis, was 1% lower than the year before. For the full year, adjusted net profit declined by 13% and on an unadjusted basis (that is, a pure IFRS accounting basis) by a whopping 20%.

For the full year revenue increased by 1% and operating income increased by the same margin. The fourth-quarter results indicated improvements of 4% and 6%, respectively, although it has to be noted that the comparable quarter of 2013 provided a low base for comparison.

Adjusted earnings per share for the quarter was unchanged at $0.69 per share but declined by 13% to $2.96 for the full year. The results were in line with the consensus market expectation.

The dividend for the final quarter was increased by 5% to $0.48 per share which brings the total for the past four quarters to $1.85 per share and a yield of 4.1%.

Below par operational performance

In the all-important wireless segment, the operating metrics indicated a mixed performance with a decline in the number of subscribers for the quarter and the full year. On a more positive note, the blended average revenue per user increased by 2% during the final quarter to $59.86 although there was a slight decline for the full year. Data network revenue increased by 8% during the quarter reflecting higher data usage from continued adoption of smartphones and other data-centric wireless devices. Adjusted operating profit in this division increased by 4% for the quarter and by 3% for the full year to $3.3 billion.

The cable division demonstrated the all too familiar pattern with growth in internet line connections and revenues but declines in phone line subscribers and revenues. Adjusted operating profit for the year declined during the year by 3% to $1.7 billion while margins moved lower as well. Apart from a subdued operating performance in this division, operating costs also increased by 3% during the year as a result of higher programming and customer-related costs. One would expect tighter expense control with revenues under pressure.

Reduced cash flow generation and higher debt

Mainly as a result of higher interest payments, operating cash flow was 7% lower during the year but still represented a high cash conversion rate of 29% of revenue. As a result of considerably higher capital expenditures and acquisitions, free cash flow (operating cash flow minus capital expenditures) was negative for the full year and the company accordingly had to increase debt and reduce cash balances to finance the expenditures and dividend.

Net debt increased by 25% to $14.7 billion at the end of the year and finance costs amounted to $817 million, an increase of $75 million for the year. This represents a very high debt-to-equity ratio of 2.68 times but interest cost is still comfortably covered by operating income. The low interest rate environment is working in currently favour of the business but the high debt level will provide a major headwind in a higher interest rate environment.

An underperforming share price… when will it turn?

Company management indicated that adjusted operating profit could improve slightly during 2015. Consensus expectations indicate at this point that earnings per share could grow with low single digits while the dividend would increase by 5%.

The valuation of the company reflects an EV/EBITDA valuation of around 7.3 times, a price/earnings ratio of 14.7 times and a dividend yield of 4.3% for the next 12 months. This valuation is at a discount to its Canadian peers but probably well-deserved given the high debt levels and ongoing below par performance.

Rogers' share price has underperformed its main competitors, **Telus Corporation** and **BCE Inc**. over the past few years. The jury is still out on whether the new CEO can help the company to regain traction.

CATEGORY

1. Investing

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1. NYSE:RCI (Rogers Communications Inc.)
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