

Cogent Communications (COI)

\$86.38 (As of 04/03/20)

Price Target (6-12 Months): **\$99.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**
(Since: 03/01/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5) **2-Buy**
Zacks Style Scores: VGM:B
Value: D | Growth: A | Momentum: B

Summary

Cogent's On-Network segment is a key growth driver, as it generates significant revenues and serves a range of corporate as well as net-centric customers in various regions. The company primarily benefits from its cost-effective operations, supported by efficient network expansion and pricing flexibility. Its advanced colocation data center services provide continuous power supply, making it ideal for disaster recovery and data backup. Low-churn corporate customers aid in generating positive cash flow with accretive customer connections. Cogent's pervasive and interconnected network provides it a competitive edge over rivals, which helps it enhance margins. However, dependency on single network vendor, foreign exchange fluctuations and intense competition from Internet Service Providers continue to limit the company's revenues.

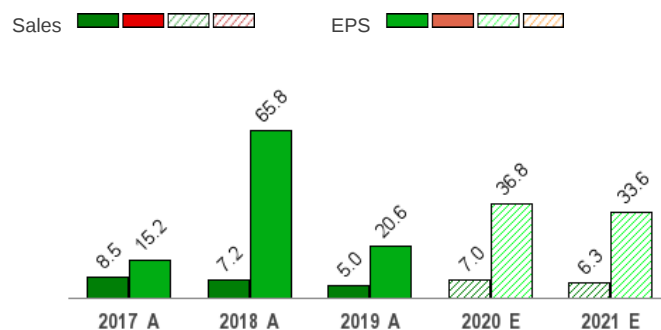
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$87.61 - \$53.24
20 Day Average Volume (sh)	654,541
Market Cap	\$4.1 B
YTD Price Change	31.3%
Beta	0.28
Dividend / Div Yld	\$2.64 / 3.1%
Industry	Wireless National
Zacks Industry Rank	Top 21% (54 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	19.1%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	1.1%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	94.9
P/E F1	83.1
PEG F1	10.4
P/S TTM	7.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	149 E	152 E	153 E	156 E	621 E
2020	142 E	145 E	147 E	150 E	584 E
2019	134 A	135 A	137 A	140 A	546 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.28 E	\$0.33 E	\$0.35 E	\$0.38 E	\$1.39 E
2020	\$0.22 E	\$0.25 E	\$0.28 E	\$0.31 E	\$1.04 E
2019	\$0.20 A	\$0.16 A	\$0.30 A	\$0.25 A	\$0.76 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/03/2020. The reports text is as of 04/06/2020.

Overview

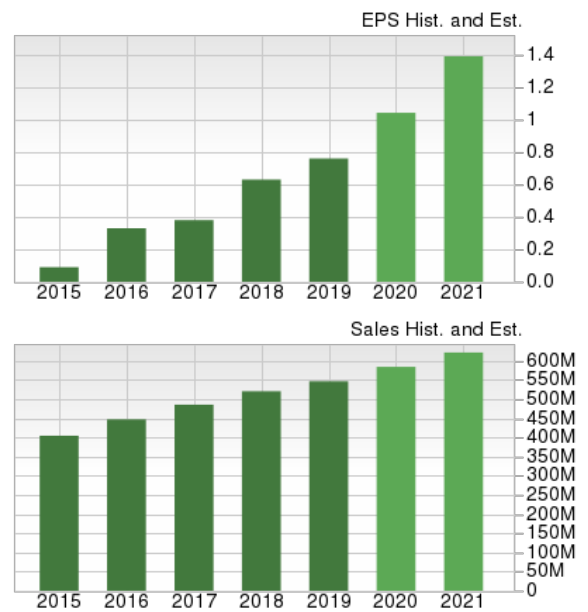
Founded in 1999 and based in Washington, DC, Cogent Communications Holdings Inc. is a Tier 1 Internet Service Provider (ISP) that offers low-cost high-speed Internet access, private network services and colocation center services with ultra low latency data transmission. The company provides its services to more than 204 major markets and interconnect with more than 6,840 other networks, spanning across North America, Europe Asia, Latin America and Australia. It addresses the dynamic needs of various small and medium-sized businesses, ISPs and other bandwidth-intensive organizations with the help of efficient network expansion and integration execution.

Cogent's network comprises metropolitan optical networks, in-building riser facilities, inter-city transport facilities and metropolitan traffic aggregation points. It transmits low cost packet switched traffic over a reliable and secure network compared with traditional circuit-switched telephone networks. Its network infrastructure encompasses 1,735 multi-tenant office buildings, 889 carrier-neutral Internet aggregation facilities and single-tenant buildings, 804 intra-city networks consisting of 32,946 fiber miles and an inter-city network of 57,426 fiber route miles.

By type of network service, Cogent generates significant revenues from two types of Internet access services — On-Net services and Off-Net services.

On-Net services (73.2% of total service revenues in fourth-quarter 2019): On-Net services are provided to corporate and net-centric customers located in buildings that are physically connected to its network by Cogent facilities. Corporate customers include financial services, law firms, advertising and marketing and other professional services businesses. Net-centric customers include telephone firms, cable television, ISPs and commercial content and application service providers.

Off-Net services (26.7%): Off-Net services are provided to customers located in buildings that are connected to Cogent's network using other carriers' facilities and services by means of "last mile" or local access service lines from the customers' premises. These services are delivered to small and medium-sized corporate customers in more than 6,650 off-net buildings with major presence in the metropolitan markets of North America and Europe.



Reasons To Buy:

- ▲ Being the leading provider of high-speed Internet access, Cogent benefits from cost-effective operations. The company offers a streamlined set of products, which help in eliminating redundant costs and give greater pricing flexibility. It incurs relatively lower costs compared with competitors owing to the usage of Internet routers without additional legacy equipment. Backed by efficient network expansion and integration execution, it also offers high-quality Internet service due to the highly economical metro and intercity network infrastructure. Its seamless network delivers high throughput, which reduces the frequency of data packets dropped during transmission compared with traditional circuit-switched networks, thereby creating a more reliable and robust network infrastructure.
- ▲ Operating as one of the most interconnected Tier 1 networks in the world, Cogent provides efficient on-network and off-network connectivity solutions to various Enterprise segments, including financial companies, educational institutions and law firms at affordable costs. In the last reported quarter, the company's on-net revenues jumped 7.7% to \$102.7 million, which was primarily driven by healthy growth in on-net customer connections. Its off-net revenues increased 2.5% to \$37.5 million in fourth-quarter 2019, backed by a rise in off-net customer connections. The company offers state-of-the-art colocation data center services that provide incessant power supply and backup generators, making it ideal for disaster recovery and data backup. Its data centers are popularly known for providing a conducive environment for coherent connectivity, security, availability and performance to its end customers. High-speed bandwidth and dedicated Internet access remain the highest priority backed by a team of committed customer support and local provisioning teams to clinch maximum reliability.
- ▲ Cogent has a high traffic network footprint across major multi-tenant office buildings in North American cities and carrier neutral colocation centers in North America and Europe, delivering high levels of Internet traffic. Its pervasive and interconnected network gives a competitive edge over its rivals, which helps in augmenting its revenue opportunities and margins. Its end-to-end optical transport network and advanced routing technology provide reliable and scalable network services and connect Cogent's significant markets throughout North America, Europe and Asia. Moreover, its augmented geographical footprint also accelerates acquisition opportunities, thereby increasing its customer base. This, in turn, offers high-quality, low-churn corporate customers, which ultimately aids in generating positive cash flow with proliferating customer connections. During fourth-quarter 2019, the company registered 86,539 customer connections compared with 80,106 in the year-ago quarter. The year-over-year increase of 8% was backed by an improvement in both on-net and off-net customer connection tallies. All these factors portend well for its long-term growth.
- ▲ The Zacks Consensus Estimate for the company's current-year earnings has been revised 8.3% upward over the past 60 days to \$1.04, reflecting positive analyst outlook. Revenues have increased at a CAGR of 7.8% from 2013 to 2019, implying Cogent's healthy momentum of on-network and off-network connectivity solutions.

Cogent's cost-effective operations, enhanced data centers and augmented network infrastructure make it poised to generate higher revenues for long-term growth.

Risks

- Cogent offers its services in a highly competitive environment, wherein it requires to establish and maintain profitable relationships with other companies. These include customers who connect their network by buying Internet access from the company or major ISPs with whom it works on a settlement-free peering basis. This, in turn, stresses its margins as the company has to incur high operating costs in order to maintain its network infrastructure. Notably, cost of goods sold has increased at a CAGR of 6.6% from 2013 to 2019. Moreover, the need to maintain accretive customer base is also dependent on a number of factors like pricing of product offerings, sales and marketing and turnover generated from customer connections. Hence, in order to generate maximum revenues, Cogent is not only incumbent to augment its customer base but also increase its networking capacity, which could otherwise impair its growth, cash flow and profitability in the days to come.
 - Cogent's network infrastructure equipment is significantly manufactured and provided by a single network infrastructure vendor — Cisco. This increases operating risks and makes it susceptible to service outages. Also, migrating from Cisco to any other vendor would be perilous as it involves a lot of time and effort to install and operate new vendor's equipment. This, in turn, amplifies the costs and reduces the operational efficacy, thereby hampering its overall financial condition. Further, due to the prevailing cases of technological changes and patent infringement in the communications industry, Cogent experiences multiple disruptions, thereby often failing to operate as a multi-vendor network.
 - Due to its augmented network footprint in various regions, Cogent is susceptible to encounter numerous economic risks. As it primarily operates in North America and Europe, any economic downturn in these regions negatively hampers its growth. The company's business gets majorly affected due to decline in the development of new applications and businesses that make significant usage of its Internet services. Moreover, due to its international exposure, fluctuations in foreign exchange rates also hinder its financial position and operational activities. It is exposed to regulatory and legal requirements like import restrictions, tariffs, trade barriers, exchange controls, privacy and data protection and adverse tax regimes. Hence, Cogent remains under constant threat of currency fluctuations and exchange rate risk. Moreover, its net income has decreased at a CAGR of 6.5% from 2013 to 2019 primarily due to higher SG&A and R&D expenses, underscoring significant inherent challenges.
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Last Earnings Report

Cogent Q4 Earnings Beat Estimates, Revenues Rise Y/Y

Cogent reported healthy fourth-quarter 2019 financial results, wherein both the top and bottom lines surpassed the Zacks Consensus Estimate.

Net Income

Net income in the December quarter was \$7.5 million or 16 cents per share compared with \$7.1 million or 16 cents per share in the prior-year quarter. The improvement was primarily attributable to top-line growth. Full-year 2019 net income came in at \$37.5 million or 81 cents per share compared with \$28.7 million or 63 cents per share in 2018.

Fourth-quarter adjusted earnings per share were 25 cents compared with 16 cents in the year-earlier quarter. The bottom line beat the consensus estimate by 4 cents.

Revenues

Quarterly service revenues were \$140.3 million compared with \$132 million in the year-ago quarter. On a constant currency basis, the 6.2% increase was backed by higher on-net and off-net revenues. The top line surpassed the consensus estimate of \$138 million. Full-year 2019 revenues rose 5% to \$546.2 million from \$520.2 million on the back of higher on-net and off-net revenues. However, foreign exchange woes negatively impacted full-year service revenues by \$5.3 million.

On-net revenues jumped 7.7% to \$102.7 million from \$95.4 million in the year-ago quarter. The increase was primarily driven by healthy growth in on-net customer connections.

Off-net revenues increased 2.5% to \$37.5 million from \$36.6 million in the year-ago quarter, driven by a rise in off-net customer connections.

Other Details

Total operating expenses were \$112.5 million compared with \$109.8 million in the prior-year quarter led by higher network operations and SG&A expenses. Operating income was \$28 million, up from \$22.3 million. Adjusted EBITDA totaled \$53 million compared with \$47.7 million a year ago for respective margins of 37.8% and 36.1%.

During fourth-quarter 2019, the company registered 86,539 customer connections compared with 80,106 in the year-ago quarter. The year-over-year increase of 8% was backed by an improvement in both on-net and off-net customer connection tallies.

Cogent hiked its dividend for the 30th consecutive quarter, which represented its robust cash flow position. The company increased its quarterly dividend by 2 cents per share to 66 cents for first-quarter 2020.

Cash Flow & Liquidity

In 2019, Cogent generated \$148.8 million of net cash from operating activities compared with \$133.9 million in 2018. As of Dec 31, 2019, the company had \$399.4 million in cash and equivalents with total current liabilities of \$89.7 million compared with the respective tallies of \$276.1 million and \$75.3 million a year ago.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	1.46%
EPS Surprise	19.05%
Quarterly EPS	0.25
Annual EPS (TTM)	0.91

Valuation

Cogent shares are up 54.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 12% over the past year, but stocks in the Zacks Computer and Technology sector are down 6.8% in the same time frame.

The S&P 500 Index is down 14.3% in the past year.

The stock is currently trading at 24.51X trailing 12-month EV/EBITDA, which compares to 6.21X for the Zacks sub-industry, 9.94X for the Zacks sector and 9.20X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.51X and as low as 12.21X, with a 5-year median of 15.58X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$99 price target reflects 14.35X forward 12-month sales.

The table below shows summary valuation data for CCOI

Valuation Multiples - CCOI					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	24.51	6.21	9.94	9.2
	5-Year High	24.51	11.63	12.84	12.88
	5-Year Low	12.21	5.34	7.59	8.27
	5-Year Median	15.58	6.64	10.61	10.79
P/E F12M	Current	77.01	9.89	18.27	15.73
	5-Year High	117.9	16.02	22.02	19.34
	5-Year Low	44.91	9.89	16.85	15.18
	5-Year Median	62.93	13.59	19.3	17.44
P/S F12M	Current	6.9	1.34	2.9	2.72
	5-Year High	7.01	1.67	3.59	3.43
	5-Year Low	2.78	1.17	2.3	2.54
	5-Year Median	3.9	1.44	3.05	3

As of 04/03/2020

Industry Analysis Zacks Industry Rank: Top 21% (54 out of 253)



Top Peers

Telenav, Inc. (TNAV)	Outperform
ATN International, Inc. (ATNI)	Neutral
CenturyLink, Inc. (CTL)	Neutral
GCI Liberty, Inc. (GLIBA)	Neutral
Gogo Inc. (GOGO)	Neutral
SITO Mobile, Ltd. (SITO)	Neutral
AT&T Inc. (T)	Neutral
Verizon Communications Inc. (VZ)	Neutral

Industry Comparison Industry: Wireless National				Industry Peers		
	CCOI Outperform	X Industry	S&P 500	ATNI Neutral	GLIBA Neutral	TNAV Outperform
VGM Score	B	-	-	D	F	B
Market Cap	4.08 B	211.05 M	16.73 B	903.10 M	5.38 B	194.53 M
# of Analysts	7	5	13	2	1	2
Dividend Yield	3.06%	0.00%	2.53%	1.20%	0.00%	0.00%
Value Score	D	-	-	C	D	C
Cash/Price	0.11	0.11	0.06	0.19	0.10	0.62
EV/EBITDA	24.50	7.76	10.55	8.45	2.64	-2.86
PEG Ratio	10.38	1.41	1.71	NA	NA	NA
Price/Book (P/B)	NA	1.06	2.28	1.12	0.87	1.83
Price/Cash Flow (P/CF)	34.91	5.35	8.96	9.89	NA	NA
P/E (F1)	83.06	14.96	14.34	1,411.00	NA	14.96
Price/Sales (P/S)	7.47	0.80	1.78	2.06	6.01	0.80
Earnings Yield	1.20%	5.01%	6.84%	0.07%	-1.67%	6.68%
Debt/Equity	-5.06	0.56	0.70	0.17	0.54	0.06
Cash Flow (\$/share)	2.47	2.47	7.01	5.70	-1.58	-0.51
Growth Score	A	-	-	F	F	B
Hist. EPS Growth (3-5 yrs)	63.48%	6.07%	10.95%	-32.00%	NA	NA
Proj. EPS Growth (F1/F0)	37.03%	2.40%	1.08%	136.36%	-104.64%	157.45%
Curr. Cash Flow Growth	3.99%	3.99%	5.92%	-14.75%	-559.23%	-70.92%
Hist. Cash Flow Growth (3-5 yrs)	9.91%	4.16%	8.55%	-2.08%	NA	NA
Current Ratio	5.30	1.68	1.24	1.91	1.84	1.97
Debt/Capital	NA%	50.20%	42.29%	14.69%	36.30%	5.72%
Net Margin	6.87%	-2.46%	11.69%	-2.46%	216.68%	-8.21%
Return on Equity	-22.60%	1.39%	16.74%	-0.25%	-7.85%	-13.83%
Sales/Assets	0.61	0.49	0.54	0.38	0.08	0.82
Proj. Sales Growth (F1/F0)	6.88%	0.00%	1.56%	14.79%	-0.64%	17.55%
Momentum Score	B	-	-	C	A	C
Daily Price Chg	3.28%	0.00%	-1.59%	2.62%	-2.47%	3.59%
1 Week Price Chg	3.28%	1.87%	12.26%	-7.19%	30.29%	-0.23%
4 Week Price Chg	-0.48%	-8.51%	-22.86%	-1.28%	-28.59%	-33.77%
12 Week Price Chg	22.52%	-25.29%	-30.01%	-0.97%	-31.03%	-9.82%
52 Week Price Chg	54.36%	-26.47%	-23.87%	-2.34%	-10.36%	-29.98%
20 Day Average Volume	654,541	407,987	4,256,776	65,118	1,031,967	405,720
(F1) EPS Est 1 week change	1.11%	-0.26%	-0.04%	0.00%	20.56%	0.00%
(F1) EPS Est 4 week change	1.11%	-1.07%	-4.29%	0.00%	20.56%	86.67%
(F1) EPS Est 12 week change	8.81%	-4.95%	-5.40%	-84.31%	18.27%	134.15%
(Q1) EPS Est Mthly Chg	1.33%	-2.04%	-5.90%	0.00%	NA	-66.67%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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