

Cogent Communications (COI)

\$70.50 (As of 01/09/20)

Price Target (6-12 Months): **\$74.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: F

Growth: A

Momentum: D

Summary

Cogent primarily benefits from its cost-effective operations, backed by pricing flexibility and efficient network expansion. The company provides streamlined on-network and off-network connectivity solutions to various Enterprise segment, thereby creating a more reliable and economical network infrastructure. Its On-Network segment is the primary source of long-term growth as it serves a diversified range of corporate and net-centric customer base in various regions. However, Cogent faces intense competition from other Internet service providers, which restrict its potential to attract new customers and retain existing ones. Dependency on single network infrastructure vendor critically impairs its competitive position in the global market. Macroeconomic challenges and foreign exchange vulnerabilities also weigh on revenues.

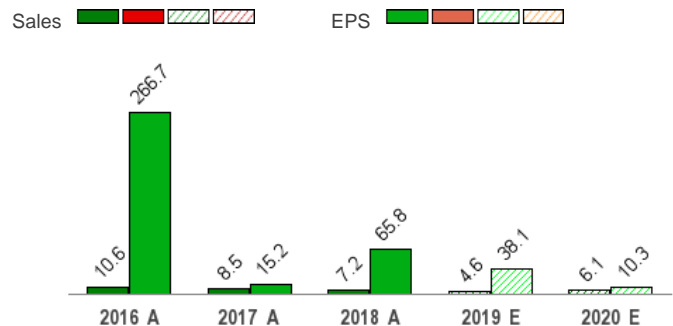
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$70.96 - \$45.97
20 Day Average Volume (sh)	292,435
Market Cap	\$3.3 B
YTD Price Change	7.1%
Beta	0.58
Dividend / Div Yld	\$2.56 / 3.6%
Industry	Wireless National
Zacks Industry Rank	Bottom 22% (199 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	66.7%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/20/2020
Earnings ESP	0.0%
P/E TTM	86.0
P/E F1	73.4
PEG F1	9.2
P/S TTM	6.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	141 E	143 E	146 E	148 E	577 E
2019	134 A	135 A	137 A	138 E	544 E
2018	129 A	129 A	130 A	132 A	520 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.22 E	\$0.25 E	\$0.27 E	\$0.30 E	\$0.96 E
2019	\$0.20 A	\$0.16 A	\$0.30 A	\$0.21 E	\$0.87 E
2018	\$0.15 A	\$0.14 A	\$0.18 A	\$0.16 A	\$0.63 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 01/09/2020. The reports text is as of 01/10/2020.

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.

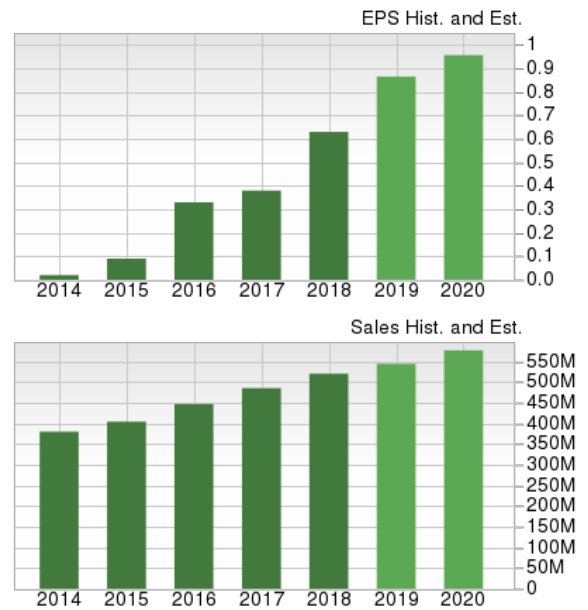
Cogent's network comprises metropolitan optical networks, in-building riser facilities, inter-city transport facilities and metropolitan traffic aggregation points. It transmits low cost packet switched traffic over a reliable and secure network compared with traditional circuit-switched telephone networks. 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 service (72.6% of total service revenues in third-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 service (27.3%): 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 helps in eliminating redundant costs and gives greater pricing flexibility. It incurs relatively lower costs compared with its 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. The company offers state-of-the art colocation data center services that provides 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 provides reliable and scalable network services and connects 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. All these factors portend well for its long-term growth.
- ▲ The Zacks Consensus Estimate for its current-year earnings has been revised 4.8% upward over the past 60 days, reinforcing positive investor sentiments. Revenues have increased at a CAGR of 8.4% from 2013 to 2018, underlining Cogent's healthy momentum of on-network and off-network connectivity solutions.

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

Reasons To Sell:

- ▼ 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 8% from 2013 to 2018. 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 the decline in the development of new applications and businesses that makes 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.
- ▼ Earnings estimates for the current fiscal have decreased 8.4% in the past year, while that for the next fiscal the same has declined 28.9%, reinforcing negative investor sentiments. Net income has decreased at a CAGR of 12.6% from 2013 to 2018 due to higher SG&A and R&D expenses, underlying significant inherent challenges.

Complex peering relationships, intense competition and foreign exchange vulnerabilities have significantly weakened its competitive position in the global market.

Last Earnings Report

Cogent Q3 Earnings Beat Estimates, Revenues Increase Y/Y

Cogent reported healthy third-quarter 2019 financial results with the bottom line surpassing the Zacks Consensus Estimate, and increasing year over year.

Net Income

Net income for the reported quarter was \$13.7 million or 30 cents per share compared with \$8.2 million or 18 cents per share in the prior-year quarter. The improvement was primarily attributable to higher revenues. The bottom line beat the consensus estimate by 12 cents.

Revenues

Quarterly service revenues were \$136.9 million compared with \$130.1 million in the year-ago quarter. On a constant currency basis, the 5.2% increase was backed by higher on-net and off-net revenues. The top line matched the consensus estimate of \$137 million.

On-net revenues jumped 6% to \$99.4 million compared with \$93.8 million in the year-ago quarter. The increase was primarily driven by a healthy growth in on-net customer connections.

Off-net revenues increased 3.4% to \$37.4 million compared with \$36.2 million in the year-ago quarter, driven by a rise in off-net customer connections.

Other Details

Total operating expenses were \$111.2 million compared with \$108.3 million in the prior-year quarter led by higher network operations and SG&A expenses. Operating income was \$25.8 million compared with \$22.3 million in the year-ago quarter. Adjusted EBITDA totaled \$50.6 million compared with \$47.4 million for respective margins of 37% and 36.4%.

During third-quarter 2019, the company registered 85,692 customer connections compared with 78,375 customer connections in the year-ago quarter. The year-over-year increase of 9.3% was backed by an improvement in both on-net and off-net customer connection tallies.

Cogent hiked its dividend for the 29th consecutive quarter, which represented its solid cash flow position. The company increased its quarterly dividend by 2 cents per share to 64 cents for fourth-quarter 2019. The board extended the share buyback program to Dec 31, 2020.

Cash Flow & Liquidity

During the first nine months of 2019, Cogent generated \$102.7 million of net cash from operating activities compared with \$93.2 million in the year-ago period. As of Sep 30, 2019, the company had \$396.3 million in cash and equivalents with total debt of \$962.5 million.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	0.40%
EPS Surprise	66.67%
Quarterly EPS	0.30
Annual EPS (TTM)	0.82

Valuation

Cogent shares are up 46.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 11.7% and 31.7% over the past year, respectively.

The S&P 500 index is up 24.4% in the past year.

The stock is currently trading at 20.34X trailing 12-month EV/EBITDA, which compares to 6.37X for the Zacks sub-industry, 12.12X for the Zacks sector and 11.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.3X and as low as 12.3X, with a 5-year median of 15.5X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$74 price target reflects 12.94X 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	20.34	6.37	12.12	11.99
	5-Year High	20.34	11.62	12.6	12.86
	5-Year Low	12.28	5.99	7.67	8.48
	5-Year Median	15.51	6.67	10.52	10.67
P/E F12M	Current	72.72	12.56	22.44	18.82
	5-Year High	117.92	16.01	22.44	19.34
	5-Year Low	44.91	10.88	16.86	15.17
	5-Year Median	63.08	13.79	19.24	17.44
P/S F12M	Current	5.72	1.53	3.62	3.49
	5-Year High	5.72	1.54	3.62	3.49
	5-Year Low	2.78	1.12	2.3	2.54
	5-Year Median	3.89	1.34	3.01	3

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Bottom 22% (199 out of 254)



Top Peers

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
Telenav, Inc. (TNAV)	Neutral
Verizon Communications Inc. (VZ)	Neutral

Industry Comparison Industry: Wireless National				Industry Peers		
	CCOI Neutral	X Industry	S&P 500	ATNI Neutral	GLIBA Neutral	TNAV Neutral
VGM Score	C	-	-	C	F	A
Market Cap	3.30 B	494.57 M	23.94 B	911.74 M	7.79 B	217.58 M
# of Analysts	5	6	13	2	1	2
Dividend Yield	3.63%	0.00%	1.78%	1.19%	0.00%	0.00%
Value Score	F	-	-	B	F	D
Cash/Price	0.13	0.10	0.04	0.19	0.05	0.53
EV/EBITDA	22.43	5.53	13.97	5.97	-13.09	-4.06
PEG Ratio	9.18	3.07	2.03	NA	NA	NA
Price/Book (P/B)	NA	1.41	3.33	1.11	1.41	2.32
Price/Cash Flow (P/CF)	29.40	6.59	13.73	8.50	216.10	NA
P/E (F1)	73.44	14.72	18.79	223.49	NA	NA
Price/Sales (P/S)	6.14	0.92	2.64	2.10	8.68	0.93
Earnings Yield	1.36%	1.36%	5.32%	0.44%	-1.41%	-5.13%
Debt/Equity	-5.37	0.59	0.72	0.18	0.40	0.07
Cash Flow (\$/share)	2.40	2.78	6.94	6.70	0.34	-0.51
Growth Score	A	-	-	D	D	A
Hist. EPS Growth (3-5 yrs)	86.07%	6.19%	10.56%	-31.80%	NA	NA
Proj. EPS Growth (F1/F0)	10.52%	24.53%	7.49%	288.89%	-109.17%	52.13%
Curr. Cash Flow Growth	18.12%	14.35%	14.83%	-13.00%	-95.01%	-70.92%
Hist. Cash Flow Growth (3-5 yrs)	7.44%	7.86%	9.00%	4.08%	NA	NA
Current Ratio	5.50	0.91	1.23	1.83	0.60	1.92
Debt/Capital	NA%	51.35%	42.99%	14.90%	30.04%	6.94%
Net Margin	6.91%	-0.32%	11.08%	0.02%	56.87%	-13.32%
Return on Equity	-21.85%	0.02%	17.16%	0.02%	-4.92%	-25.94%
Sales/Assets	0.63	0.50	0.55	0.38	0.09	0.84
Proj. Sales Growth (F1/F0)	6.00%	5.02%	4.20%	13.87%	0.45%	7.97%
Momentum Score	D	-	-	B	C	A
Daily Price Chg	1.82%	0.00%	0.53%	-0.26%	1.29%	1.59%
1 Week Price Chg	1.62%	0.00%	-0.30%	0.81%	1.74%	1.67%
4 Week Price Chg	13.71%	0.59%	1.92%	1.90%	7.03%	-9.13%
12 Week Price Chg	22.74%	-0.81%	6.54%	-0.09%	11.97%	-3.66%
52 Week Price Chg	45.06%	-17.02%	22.58%	-24.83%	71.23%	2.28%
20 Day Average Volume	292,435	292,435	1,580,816	81,229	372,793	325,066
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-0.05%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-1.45%	-0.15%	-0.50%	50.00%	1.89%	-28.13%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
Growth Score	A
Momentum Score	D
VGM Score	C

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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