

Rogers Communications (RCI)

\$49.17 (As of 02/24/20)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/26/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: C

Summary

Rogers Communications' fourth-quarter 2019 revenues declined year over year. Lower device upgrades by existing users and continued loss of prepaid, postpaid and TV subscribers were an overhang. Additionally, weakness in Television and Service revenues hurt overall profitability. Moreover, intense competition in the wireless industry does not bode well for the company. Notably, shares have underperformed the industry in a year's time. However, the company continues to benefit from Internet subscriber additions and shift of Internet users to higher-usage tiers. The company's investments in 5G spectrum and partnerships with leading real estate companies to support 5G infrastructure deployment is expected to help it provide 5G service soon in Canada, which is a key catalyst in the long haul.

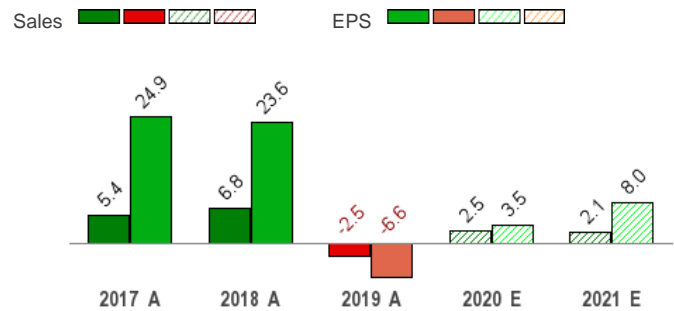
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.93 - \$45.94
20 Day Average Volume (sh)	330,254
Market Cap	\$25.1 B
YTD Price Change	-1.0%
Beta	0.46
Dividend / Div Yld	\$1.51 / 3.1%
Industry	Cable Television
Zacks Industry Rank	Top 20% (51 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.6%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/16/2020
Earnings ESP	0.0%
P/E TTM	15.7
P/E F1	15.2
PEG F1	3.0
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					11,885 E
2020	2,705 E	2,879 E	2,897 E	3,083 E	11,644 E
2019	2,698 A	2,826 A	2,844 A	2,994 A	11,359 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.50 E
2020	\$0.72 E	\$0.86 E	\$0.90 E	\$0.82 E	\$3.24 E
2019	\$0.59 A	\$0.87 A	\$0.91 A	\$0.76 A	\$3.13 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 02/24/2020. The reports text is as of 02/25/2020.

Overview

Toronto, Canada-based Rogers Communications Inc. provides cable television, high-speed Internet access, and video retailing through its wholly-owned subsidiary, Rogers Cable and Telecom. The company also provides wireless voice, data, and messaging services through its wholly-owned subsidiary, Rogers Wireless. Additionally, Rogers owns and operates radio and television broadcasting stations, televised shopping networks, consumer magazines, as well as trade and professional publications through its wholly-owned subsidiary, Rogers Media.

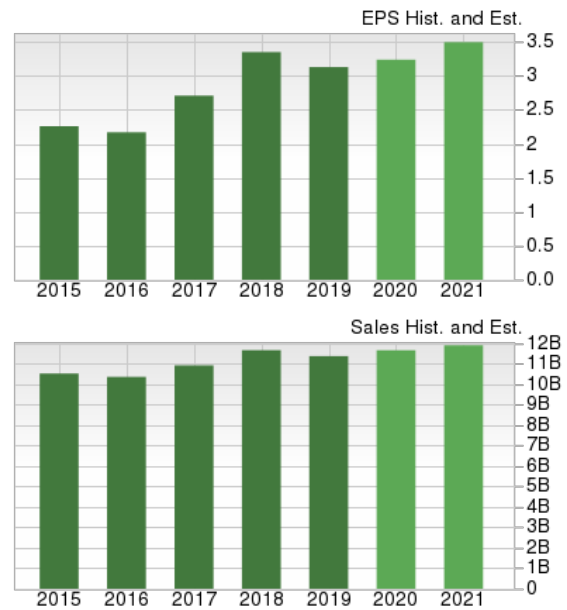
In 2019, the company reported total revenues of C\$15.07 billion.

Rogers Wireless Segment (61.4% of 2019 revenues) delivers a variety of pioneering wireless network technologies and services to both residential and enterprise business customers. The company also provides its postpaid and prepaid wireless customers with the latest wireless devices, services, and applications through its Rogers, Fido, and chatr brands.

The company had more than 10.8 million Wireless subscribers in 2019. Moreover, Rogers continues to invest in 5G technology and is partnering with leading real estate and mobile companies to support 5G infrastructure deployment. This will enable the company to quickly deploy the technology for its customers in urban, suburban and rural communities.

Rogers Cable Segment (26.2% of 2019 revenues) provides high-speed Internet service, phone, advanced home Wi-Fi and digital television services. Additionally, the company's shift to Data Over Cable Service Interface Specification (DOCSIS) 3.1 technology is helping it provide faster Internet speed and allowing users to easily interact with more Internet-connected devices.

Rogers Media Segment (13.7% of 2019 revenues) consists of radio and television broadcasting operations, consumer and trade publishing operations, televised home shopping service and Rogers Sports Entertainment. Broadcasting comprises 52 radio stations across Canada, multicultural OMNI television stations, the 5 station City television network; Rogers Sportsnet, along with The Shopping Channel.



Reasons To Buy:

- ▲ Rogers has been able to attain favorable trends in churn and net additions on the back of its high-quality network, value-added content offerings and sustained improvements in customer experience. The company enhanced the wireless service for Rogers and Fido customers in Surrey and in parts of Alberta and New Brunswick.
- ▲ Rogers has become the first wireless operator in Canada to offer “Internet of Things” (IoT) as a service to business enterprises. End-to-End Incident Management, Farm & Food Monitoring and Level Monitoring are the three IoT services that the wireless carrier currently offers. Rogers estimated that currently a little more than 45% of Canadian organizations are deploying IoT solutions to achieve cost efficiencies and improve existing processes. The collaboration with Ericsson and University of British Columbia (UBC) will help the company rapidly deploy 5G. Wireless networks will provide the primary impetus to the telecom industry. In this regard, IoT holds the potential to emerge as the numero uno factor for future growth and Rogers increasing traction in this space bodes well for the company.
- ▲ Internet penetration continues to be strong for the last 15 straight quarters, primarily due to growing demand for data, user shift toward higher-priced tiers and increase in subscriber base. The company expects the demand for broadband data to witness growth of about 30% per year. Rogers Communications currently offers 1 gigabyte speed to its user base. However, with the company's Data Over Cable Service Interface Specification (DOCSIS) technology, Rogers Communications will have the ability to cater to growing Canadian data demand with up to 10 gigabytes per second speed.
- ▲ Rogers announced that it will provide small businesses Rogers Unison, a new mobile solution that has in-built features of a traditional landline phone. Being the first telecommunications provider in North America to launch such a solution, Rogers is eliminating the need for small businesses to stay connected to their desk phone. This means that businesses will be able to connect with customers and employees regardless of location, increasing their productivity while also saving dollars previously spent on landlines.
- ▲ Rogers has been focusing increasingly on the business enterprise segment. The company has Internetworking to provide enhanced services to its business customers. Additionally, the company also launched Rogers Public Cloud, a cloud infrastructure-as-a-service (IaaS) solution that will allow its business customers to securely manage critical data, applications, servers, systems software and network resources over the internet. We believe that such innovative service launches for business customers will yield benefit in terms of higher revenues going forward.

Rogers Communications' focus on technologies like Internet of Things (IoT) and 5G coupled with growing demand for Internet in Canada is expected to give the company a competitive edge.

Reasons To Sell:

- ▼ Rogers Communications faces fierce wireless competition from large incumbents like TELUS and BCE and other small regional carriers. Moreover, Shaw Communications' venture into the Canadian wireless market with the WIND Mobile acquisition raises competition for Rogers Communications. To maintain competitive edge Rogers Communications invested C\$60 million in infrastructure in 2019.
- ▼ Meanwhile, Rogers Communications Cable operations are also currently facing increased competition. BCE's entry into cable TV services is increasing competitive pressure and may likely slash Rogers Communications market share and cap margin expansion. BCE is aggressively rolling out IPTV network and offering triple-play services at highly attractive prices, which are quite popular particularly among the low-end market segment. Moreover, similar to other cable companies, Rogers has lost viewers to video streaming service providers like Netflix. In the Internet space, Rogers Communications faced stiff competition and price discounts from third-party resellers and other players throughout 2019.
- ▼ Rogers Communications' Media segment faces headwinds from softness in the advertising market. We believe that much of the Media segment's growth is dependent on the strong viewership ratings of Rogers Communications radio and TV broadcasting operations. To remain competitive, the company needs to invest heavily in new TV programs and TV channels. This may result in considerable cash drain from Rogers Communications balance sheet.
- ▼ Rogers Communications' high debt levels raise concerns. The ratio of its long-term debt-to-equity currently stands at 185.5%. This compares unfavorably with the industry figure of 134.2%. Moreover, the company's long-term debt as at Dec 31, 2019 was \$16.1 billion, way more than its cash and cash equivalents of \$494 million.

Rogers Communications operates in an intensely competitive wireless and cable television industry. The company's investments to maintain competitive edge hurt growth.

Last Earnings Report

Rogers Communications (RCI) Misses on Q4 Earnings, Revenues

Rogers Communications reported fourth-quarter adjusted earnings of 76 cents per share that missed the Zacks Consensus Estimate by 2.6%.

Total revenues of \$2.99 billion also missed the consensus mark by 1%.

Adjusted earnings decreased 11.5% year over year to C\$1 per share. Total revenues increased 0.6% year over year to C\$3.95 billion.

Notably, fourth-quarter 2019 results were reported per IFRS 16.

During the quarter, Rogers announced collaboration with Cibic Telecom to provide a connected car solution in Canada and the United States by integrating Cubic Telecom's Platform for Application and Connectivity Enablement with Rogers' mobile network.

Wireless Details

Wireless (63.1% of total revenues) increased 1.2% from the year-ago quarter to C\$2.49 billion.

During the quarter, Rogers announced investments in its wireless network to enhance connectivity in Kelowna, West Kelowna and Westbank First Nation for Rogers and Fido customers.

Service revenues decreased 1% to C\$1.78 billion, attributable to decrease in prepaid subscriber base and blended average revenue per user (ARPU) as a result of overage revenues due to faster adoption of Rogers Infinite unlimited data plan launched last quarter.

During the quarter, the company introduced Rogers Pro On-the-Go, a new retail service that delivers and sets up wireless devices at a customer's location of choice.

Equipment revenues were up 7.1% to C\$705 million due to increase in gross postpaid subscribers. However, this was offset by lower device upgrades by existing users in the reported quarter.

Monthly blended ARPU was C\$55.26, down 1.2% year over year. Meanwhile, monthly blended average billing per user (ABPU) was C\$66.17, up 1.6% primarily a result of an ongoing shift in the product mix of device sales toward higher-value devices.

As of Dec 31, 2019, prepaid subscriber base totaled almost 1.4 million, a loss of 224K subscribers from the year-ago quarter. Monthly churn rate was 5.58% compared with 5.85% in the year-ago quarter.

As of Dec 31, 2019, postpaid wireless subscriber base totaled roughly 9.44 million, up 281K from the year-ago quarter driven by strong adoption of Rogers Infinite plans by new customers. Monthly churn rate was 1.26% compared with 1.23% in the year-ago quarter.

Segment operating expense decreased 0.5% from the year-ago quarter to C\$1.43 billion.

Adjusted EBITDA increased 3.5% year over year to C\$1.06 billion. Adjusted EBITDA margin expanded 100 basis points (bps) on a year-over-year basis to 42.7%.

Cable Details

Cable revenues (25% of total revenues) were flat year over year and came in at C\$987 million. The stable revenues were due to higher Internet subscriber base and the movement of television customers to higher content tiers. Service revenues were flat year over year.

Internet revenues increased 7.3% due to user shift toward higher-GB tiers and increase in subscriber base, partially offset by increased promotional activities. As of Dec 31, 2019, Internet subscriber count was nearly 2.53 million, up 104K from the year-ago quarter.

On Nov 20, Rogers announced that Amazon's (AMZN) Amazon Prime streaming services app was available for subscribers on Ignite TV.

Television revenues were down 2.2% year over year due to decline in television subscriber base. This was offset by migration of subscribers from legacy TV product to Ignite TV and the movement of customers to higher content tiers.

Subscriber count was nearly 1.58 million in the Television segment, a decline of 106K from the year-ago quarter.

Phone revenues plunged 37.2% year over year primarily due to bundled discount pricing and decline in subscriber base. Subscriber count was nearly 1.07 million, a decline of 44K from the year-ago quarter.

Equipment revenues decreased 25% year over year to C\$3 million.

Segment operating expense decreased 2% from the year-ago quarter to C\$490 million.

Adjusted EBITDA increased 1.6% year over year to C\$497 million. Adjusted EBITDA margin expanded 90 bps on a year-over-year basis to 50.4%.

Media Details

Media (13.4% of total revenues) declined 1.9% from the year-ago quarter to C\$530 million. The decline in revenues was primarily due to the sale

Quarter Ending **12/2019**

Report Date	Jan 22, 2020
Sales Surprise	-0.78%
EPS Surprise	-2.56%
Quarterly EPS	0.76
Annual EPS (TTM)	3.13

of the company's publishing business.

Segment operating expense increased 1.6% year over year to C\$508 million primarily attributed to higher programming costs.

Adjusted EBITDA decreased 45% year over year to C\$22 million.

Consolidated Results

Operating costs were flat year over year at C\$2.42 billion. As a percentage of revenues, operating costs contracted 10 bps to 61.3%.

Adjusted EBITDA increased 0.6% from the year-ago quarter to C\$1.53 billion. Adjusted EBITDA margin expanded 10 bps to 38.7%.

Balance Sheet & Cash Flow Details

As of Dec 31, 2019, Rogers Communications had cash and cash equivalents of \$494 million compared with \$262 million at the end of the previous quarter.

Cash provided by operating activities increased 10.9% year over year to C\$1.16 billion. Free cash flow increased 5.5% year over year to C\$497 million attributed to lower capital expenditures and higher adjusted EBITDA, partially offset by higher interest on borrowings.

Rogers Communications paid C\$256 million in dividends in the reported quarter. The company repurchased shares worth \$357 million.

Rogers Communications ended the fourth quarter with a debt leverage ratio (adjusted net debt/adjusted EBITDA) of 2.9, up 40 bps from the end of 2018.

Guidance for 2020

Revenues are expected to be down 2% to up 2%. Adjusted EBITDA is expected to increase up to 2%.

Capital expenditure is expected in the range of C\$2.7-2.9 billion. Free cash flow is expected to increase in the range of 2% to 4%.

The company expects to expand the Rogers 5G network to over 20 more markets in 2020.

Recent News

On Jan 23, Rogers' Cybersecure Catalyst division announced the launch of Canada's first commercial accelerator to help scale up companies in cybersecurity and related fields.

On Jan 22, Rogers announced that its board of directors declared a quarterly dividend totaling 50 cents per share to be paid on Apr 1, 2020 to shareholders of record as of Mar 10, 2020.

On Jan 15, Rogers announced it started to roll out Canada's first 5G network in downtown Vancouver, Toronto, Ottawa and Montreal. The Rogers 5G network will expand to more than 20 more markets by the end of the year.

The company also announced it is the exclusive Canadian member of the global 5G Future Forum, a 5G and mobile edge computing forum that includes Verizon, Vodafone, Telstra, KT and America Movil.

On Dec 20, Rogers announced a three-year, multi-million dollar partnership agreement with University of Waterloo to advance 5G research in the Toronto-Waterloo tech corridor and create the first 5G smart campus in central Canada.

On Dec 11, Rogers announced opening of its new state-of-the-art flagship retail experience, Rogers 302, on Dec 12. Rogers 302 is the first 5G-ready store located in Toronto, Canada.

On Nov 20, Rogers announced the availability of Amazon Prime Video app on Ignite TV.

Valuation

Rogers Communications shares are down 1% in the past six-month period and 11.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 11.1% and 7.7% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 20.5% and 6.3%, respectively.

The S&P 500 index is up 12.5% in the past six-month period and 14.7% in the past year.

The stock is currently trading at 15X forward 12-month earnings, which compares to 18.94X for the Zacks sub-industry, 19.58X for the Zacks sector and 18.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.82X and as low as 12.62X, with a 5-year median of 15.44X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$52 price target reflects 15.85X forward 12-month earnings.

The table below shows summary valuation data for RCI

Valuation Multiples - RCI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15	18.94	19.58	18.44
	5-Year High	19.82	29.11	23.34	19.34
	5-Year Low	12.62	15.93	16.15	15.18
	5-Year Median	15.44	22.13	20.05	17.47
P/B TTM	Current	3.54	2.9	3.39	4.66
	5-Year High	6.39	4.33	5.04	4.9
	5-Year Low	3.23	2.43	3.13	2.85
	5-Year Median	4.45	3.27	4.26	3.62
EV/EBITDA TTM	Current	8.16	10.05	12.22	12
	5-Year High	9.63	19.24	17.61	12.87
	5-Year Low	6.55	8.52	10.77	8.48
	5-Year Median	8.52	10.54	12.37	10.77

As of 02/24/2020

Industry Analysis Zacks Industry Rank: Top 20% (51 out of 255)



Top Peers

Microsoft Corporation (MSFT)	Outperform
Spotify Technology SA (SPOT)	Outperform
Amazon.com, Inc. (AMZN)	Neutral
BCE, Inc. (BCE)	Neutral
Alphabet Inc. (GOOGL)	Neutral
Netflix, Inc. (NFLX)	Neutral
Sirius XM Holdings Inc. (SIRI)	Neutral
Shaw Communications Inc. (SJR)	Neutral

Industry Comparison Industry: Cable Television				Industry Peers		
	RCI Neutral	X Industry	S&P 500	BCE Neutral	NFLX Neutral	SJR Neutral
VGM Score	C	-	-	C	F	D
Market Cap	25.11 B	11.57 B	23.50 B	43.49 B	161.79 B	9.36 B
# of Analysts	8	4	13	8	13	6
Dividend Yield	3.06%	0.00%	1.83%	5.01%	0.00%	4.73%
Value Score	C	-	-	C	F	C
Cash/Price	0.02	0.03	0.04	0.00	0.03	0.01
EV/EBITDA	8.15	11.20	13.56	8.47	14.28	7.60
PEG Ratio	3.01	2.22	2.02	4.31	2.03	4.03
Price/Book (P/B)	3.54	2.32	3.20	3.29	21.34	1.97
Price/Cash Flow (P/CF)	7.09	7.42	13.05	7.49	14.46	6.95
P/E (F1)	15.06	19.57	18.56	17.77	60.87	18.68
Price/Sales (P/S)	2.21	2.21	2.60	2.41	8.03	2.31
Earnings Yield	6.59%	2.63%	5.38%	5.63%	1.64%	5.34%
Debt/Equity	1.85	1.23	0.70	1.28	1.95	0.65
Cash Flow (\$/share)	6.94	2.72	7.03	6.42	25.49	2.72
Growth Score	B	-	-	C	F	D
Hist. EPS Growth (3-5 yrs)	11.28%	6.03%	10.85%	-0.15%	82.45%	-4.73%
Proj. EPS Growth (F1/F0)	3.47%	30.59%	6.90%	2.56%	46.66%	-6.18%
Curr. Cash Flow Growth	1.79%	10.96%	6.78%	5.00%	26.74%	-3.39%
Hist. Cash Flow Growth (3-5 yrs)	2.34%	7.25%	8.38%	2.41%	30.03%	-1.48%
Current Ratio	0.86	1.22	1.22	0.56	0.90	0.56
Debt/Capital	64.97%	58.84%	42.37%	51.01%	66.06%	39.23%
Net Margin	13.55%	13.22%	11.57%	12.84%	9.26%	13.22%
Return on Equity	23.66%	1.10%	16.80%	18.85%	28.45%	11.41%
Sales/Assets	0.43	0.35	0.55	0.40	0.66	0.35
Proj. Sales Growth (F1/F0)	2.48%	2.48%	4.03%	1.55%	20.90%	4.46%
Momentum Score	C	-	-	D	B	C
Daily Price Chg	-0.10%	-2.10%	-2.98%	-1.47%	-2.99%	-1.76%
1 Week Price Chg	-0.77%	-0.02%	-0.94%	0.58%	-0.09%	-1.38%
4 Week Price Chg	-2.77%	0.68%	-0.94%	1.22%	7.53%	-5.54%
12 Week Price Chg	3.39%	8.15%	1.75%	0.65%	18.94%	-7.43%
52 Week Price Chg	-11.28%	-6.78%	10.97%	8.77%	1.32%	-8.11%
20 Day Average Volume	330,254	273,763	2,001,782	794,292	5,077,166	451,403
(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%	0.00%	-0.05%	-5.40%	0.22%	0.00%
(F1) EPS Est 12 week change	-1.33%	0.00%	-0.21%	-5.27%	10.60%	-7.03%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.49%	-16.67%	0.03%	0.00%

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	C
Growth Score	B
Momentum Score	C
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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