

## Rogers Communications (RCI)

**\$49.41** (As of 12/30/19)

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)

**4-Sell**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

### Summary

Rogers Communications continues to benefit from Internet subscriber additions and shift of Internet users to higher-usage tiers. This is expected to drive the Wireless and Cable segment revenues. Additionally, improved customer experience helped it reduce postpaid churn rate. The company's investments in 5G spectrum and partnerships with leading real estate companies to support 5G infrastructure deployment may help it provide 5G service soon. This is likely to drive the top line. Additionally, the company's focus on offering IoT-related solutions is a major growth driver. However, continued loss of Wireless prepaid and TV subscribers does not bode well. Moreover, intense competition in the wireless and cable TV industry is an overhang for the company. Notably, shares have underperformed the industry in a year's time.

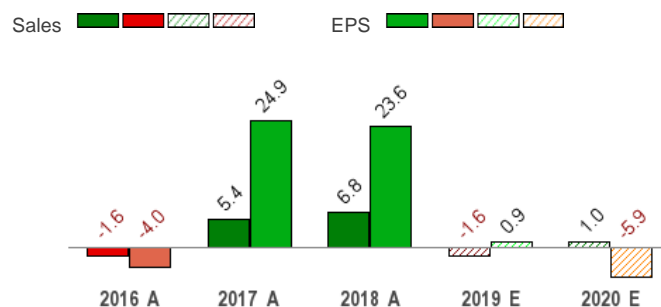
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$55.93 - \$45.94
20 Day Average Volume (sh)	324,435
Market Cap	\$25.2 B
YTD Price Change	-3.6%
Beta	0.50
Dividend / Div Yld	\$1.51 / 3.0%
Industry	<a href="#">Cable Television</a>
Zacks Industry Rank	Top 39% (99 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9.0%
Last Sales Surprise	-2.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/22/2020
Earnings ESP	0.0%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					11,576 E
2019	2,698 A	2,826 A	2,844 A	3,015 E	11,461 E
2018	2,875 A	2,911 A	2,884 A	2,980 A	11,648 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.78 E				\$3.18 E
2019	\$0.59 A	\$0.87 A	\$0.91 A	\$1.01 E	\$3.38 E
2018	\$0.71 A	\$0.83 A	\$0.93 A	\$0.86 A	\$3.35 A

\*Quarterly figures may not add up to annual.

P/E TTM	15.3
P/E F1	14.6
PEG F1	2.9
P/S TTM	2.2

The data in the charts and tables, except sales and EPS estimates, is as of 12/30/2019. The reports text and the analyst-provided sales and EPS estimates are as of 12/31/2019.

## 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 2018, the company reported total revenues of C\$15.09 billion, up 5% year over year.

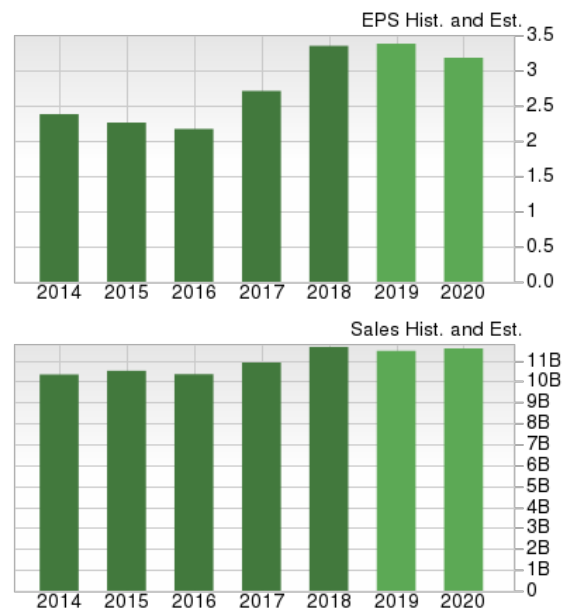
Rogers Wireless Segment (60.9% of 2018 revenues) delivers a variety of pioneering wireless network technologies and services to both residential and enterprise business customers. The company also provides its postpaid and prepaid wireless customers with the latest wireless devices, services, and applications through its Rogers, Fido, and chatr brands.

Moreover, the division has access to wireless voice services in over 202 countries and wireless data services in more than 138 countries throughout Europe, Asia, Latin America, and Africa through roaming agreements with GSM wireless providers.

The company had more than 10.7 million Wireless subscribers in 2018. 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% of 2018 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 (14.4% of 2018 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.



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## 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 company expects the Canadian IoT market size to reach a value of \$13.5 billion by 2019. 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 Internetnetworking 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.

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## 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 \$2.8 billion in infrastructure in 2018.
- ▼ 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 2018.
- ▼ 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 169.2%. This compares unfavorably with the industry figure of 83.8%. Moreover, the company's long-term debt in third-quarter 2019 was \$14.88 billion, way more than its cash and cash equivalents of \$262 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 Misses on Q3 Earnings, Revenues

Rogers Communications reported third-quarter adjusted earnings of 91 cents per share that missed the Zacks Consensus Estimate of \$1.

Total revenues of \$2.84 billion also missed the consensus mark of \$2.92 billion.

Adjusted earnings decreased 1.7% year over year to C\$1.19 per share. Total revenues decreased 0.4% year over year to C\$3.75 billion.

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

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	-2.58%
EPS Surprise	-9.00%
Quarterly EPS	0.91
Annual EPS (TTM)	3.23

### Wireless Details

Wireless (61.9% of total revenues) decreased 0.3% from the year-ago quarter to C\$2.32 billion.

Service revenues decreased 1.6% to C\$1.81 billion, attributable to an expanded postpaid subscriber base and a 2% decrease in blended average revenue per user as a result of overage revenues due to faster adoption of Rogers Infinite unlimited data plan launched last quarter.

Equipment revenues were up 4.5% to C\$516 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 average revenue per user (ARPU) was C\$56.01, down 2.1% year over year. Monthly blended average billing per user (ABPU) was C\$67.2, up 1.5%.

As of Sep 30, 2019, prepaid subscriber base totaled almost 1.48 million, a loss of 287K subscribers from the year-ago quarter. Monthly churn rate was 4.74% compared with 3.48% in the year-ago quarter.

As of Sep 30, 2019, postpaid wireless subscriber base totaled roughly 9.36 million, up 315K from the year-ago quarter. Monthly churn rate was 1.2% compared with 1.09% in the year-ago quarter.

Segment operating expense decreased 3.7% from the year-ago quarter to C\$1.19 billion.

Adjusted EBITDA increased 3.5% year over year to C\$1.14 billion. Adjusted EBITDA margin expanded 180 basis points (bps) on a year-over-year basis to 49%.

### Cable Details

Cable (26.5% of total revenues) inched up 1.1% from the year-ago quarter to C\$994 million. The increase was due to higher Internet subscriber base and increased Ignite TV subscriber base.

Service revenues climbed 1% to C\$989 million.

Internet revenues increased 6.7% year over year due to user shift toward higher-GB tiers and increase in subscriber base, partially offset by increased promotional activities. As of Sep 30, 2019, Internet subscriber count was nearly 2.5 million, up 102K from the year-ago quarter.

During the quarter, Rogers Communications launched Fido Data Overage Protection plan, which enables customers to pause and purchase data when they reach their limit. Early responses noted 2, 60,000 customers on new plans using 14% more data.

Additionally, the company also launched the Ignite Wi-Fi Hub app and introduced Wall-to-Wall Wi-Fi pods to manage home Wi-Fi networks and enhance Wi-Fi connectivity in households.

The company is set to launch reciprocal roaming arrangement with AT&T to extend LTE-M coverage for IoT customers throughout Canada and the United States.

Television revenues were up 1.7% year over year due to pricing changes and addition of new Ignite TV subscribers. This was offset by decline in subscriber base.

Rogers Communications lost 17K subscribers on a year-over-year basis to reach an installed base of almost 1.6 million in the Television segment.

During the quarter, the company added new apps such as Sportsnet NOW, and The Zone on Ignite TV.

Phone revenues plunged 36.4% year over year primarily due to bundled discount pricing and decline in subscriber base. Subscriber count was nearly 1.08 million, a decline of 37K from the year-ago quarter.

Equipment revenues jumped 25% year over year to C\$5 million.

Segment operating expense increased 0.4% from the year-ago quarter to C\$495 million.

Adjusted EBITDA increased 1.8% year over year to C\$499 million. Adjusted EBITDA margin expanded 40 bps on a year-over-year basis to 50.2%.

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**Media Details**

Media (12.9% of total revenues) declined 1% from the year-ago quarter to C\$483 million. The decline in revenues was primarily due to the sale of the company's publishing business and lower Toronto Blue Jays revenues.

Segment operating expense decreased 14.9% year over year to C\$353 million primarily attributed to lower publishing-related costs and Toronto Blue Jays player salaries.

Adjusted EBITDA increased 78.1% year over year to C\$130 million.

**Consolidated Results**

Operating costs declined 4.8% from the year-ago quarter to C\$2.05 billion. As a percentage of revenues, operating costs contracted 250 bps to 54.5%. The company deployed a cooling optimization program across network data centers during the quarter, which reduced annual electricity use by 2 gigawatt-hours.

Adjusted EBITDA increased 5.7% from the year-ago quarter to C\$1.71 billion. Adjusted EBITDA margin expanded 260 bps to 45.6%.

**Balance Sheet & Cash Flow Details**

As of Sep 30, 2019, Rogers Communications had cash and cash equivalents of \$262 million compared with \$404 million at the end of the previous quarter.

Cash provided by operating activities increased 0.1% year over year to C\$1.3 billion. Free cash flow increased 22.3% year over year to C\$767 million, attributed to higher adjusted EBITDA along with capital efficiencies in cable and decrease in cash income taxes for the reported quarter.

Rogers Communications paid C\$256 million in dividends in the reported quarter. The company repurchased shares worth \$93 million.

Rogers Communications ended the third quarter with a debt leverage ratio (adjusted net debt/adjusted EBITDA) of 2.8, up from 2.5 at the end of 2018.

**Guidance for 2019**

Revenues are expected to be down 1% to up 1% against the prior guidance of increase in the range of 3%-5%.

Adjusted EBITDA is expected to increase in the range of 3%-5% compared with the prior guidance of increase in the range of 7%-9%.

Capital expenditure is expected in the range of C\$2.75-2.85 billion compared with the prior guidance of C\$2.85-3.05 billion.

Free cash flow is expected to increase in the range of C\$100-200 million compared with the prior guidance of increase in the range of C\$200-300 million.

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## Recent News

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. Roger 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.

On Oct 23, Rogers announced that its board of directors declared a quarterly dividend of 50 cents per share on each of its outstanding Class B Non-Voting shares and Class A Voting shares.

On Oct 17, Rogers announced collaboration with Cibic Telecom to provide a connected car solution in Canada by integrating Cubic Telecom's Platform for Application and Connectivity Enablement with Rogers' mobile network.

On Oct 10, Rogers announced the launch of Pro On-the-Go services, which offer convenient, personal mobile solutions, delivery & set-up, all at no cost for customers.

On Sep 19, Rogers announced a reciprocal agreement with AT&T to extend LTE-M coverage for IoT customers of both companies, throughout Canada and the United States. The company also recently launched narrow-band IoT (NB-IoT) technology in Canada. NB-IoT allows stationary IoT devices and sensors to send and receive small amounts of data over long distances, with very low-power requirements.

On Aug 21, Rogers announced the availability of its IPTV service, Ignite TVTM, across New Brunswick. Customers can search their favorite content and navigate the platform in both French and English using their voice.

## Valuation

Rogers Communications shares are down 7.1% in the six months period and 3.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 8.1% and 5.5% in the six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 38.5% and 29.4%, respectively.

The S&P 500 index is up 9.9% in the six months period and 28% in the past year.

The stock is currently trading at 14.87X forward 12-month earnings, which compares to 18.57X for the Zacks sub-industry, 20.41X for the Zacks sector and 18.6X 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 15.43X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$52 price target reflects 15.66X 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	14.87	18.57	20.41	18.6
	5-Year High	19.82	29.11	23.34	19.34
	5-Year Low	12.62	15.93	16.17	15.17
	5-Year Median	15.43	22.54	20.09	17.43
P/B TTM	Current	3.45	3.08	3.56	4.42
	5-Year High	6.39	4.33	5.04	4.42
	5-Year Low	3.23	2.43	3.13	2.85
	5-Year Median	4.45	3.33	4.29	3.6
EV/EBITDA TTM	Current	8.2	10.76	12.77	12.01
	5-Year High	9.63	19.42	17.77	12.86
	5-Year Low	6.55	8.52	11.08	8.49
	5-Year Median	8.51	10.63	12.44	10.65

As of 12/30/2019

## Industry Analysis Zacks Industry Rank: Top 39% (99 out of 253)



## Top Peers

Spotify Technology SA (SPOT)	Outperform
Amazon.com, Inc. (AMZN)	Neutral
BCE, Inc. (BCE)	Neutral
Alphabet Inc. (GOOGL)	Neutral
Microsoft Corporation (MSFT)	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
<b>VGM Score</b>	<b>B</b>	-	-	<b>B</b>	<b>F</b>	<b>C</b>
Market Cap	25.23 B	12.16 B	23.75 B	41.79 B	141.56 B	10.01 B
# of Analysts		2	13			6
Dividend Yield	3.05%	0.00%	1.79%	5.16%	0.00%	4.41%
<b>Value Score</b>	<b>B</b>	-	-	<b>C</b>	<b>F</b>	<b>C</b>
Cash/Price	0.01	0.05	0.04	0.02	0.03	0.11
EV/EBITDA	8.22	10.83	13.92	8.82	16.15	7.39
PEG Ratio	2.92	2.88	2.12	4.23	3.22	4.12
Price/Book (P/B)	3.45	2.55	3.32	3.20	20.63	2.11
Price/Cash Flow (P/CF)	7.31	7.42	13.73	7.51	15.92	7.42
P/E (F1)	14.62	18.55	19.56	17.33	96.60	18.55
Price/Sales (P/S)	2.22	2.06	2.67	2.32	7.50	2.48
Earnings Yield	6.44%	2.10%	5.10%	5.77%	1.04%	5.39%
Debt/Equity	1.69	1.31	0.72	1.30	1.81	0.65
Cash Flow (\$/share)	6.76	2.72	6.94	6.15	20.31	2.72
<b>Growth Score</b>	<b>C</b>	-	-	<b>C</b>	<b>D</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	10.05%	6.43%	10.53%	-0.55%	72.13%	-6.17%
Proj. EPS Growth (F1/F0)	-5.00%	1.63%	6.30%	-1.57%	24.88%	0.93%
Curr. Cash Flow Growth	12.04%	12.04%	14.83%	4.14%	28.72%	-3.39%
Hist. Cash Flow Growth (3-5 yrs)	0.55%	7.00%	9.00%	0.57%	30.20%	-1.48%
Current Ratio	0.71	1.26	1.23	0.60	0.73	0.78
Debt/Capital	62.85%	57.33%	42.99%	51.35%	64.43%	39.23%
Net Margin	13.79%	13.76%	11.08%	12.61%	7.49%	13.76%
Return on Equity	25.20%	0.38%	17.10%	18.75%	23.65%	11.92%
Sales/Assets	0.44	0.35	0.55	0.40	0.66	0.35
Proj. Sales Growth (F1/F0)	-1.58%	0.00%	2.86%	0.48%	27.44%	4.76%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>A</b>	<b>A</b>	<b>B</b>
Daily Price Chg	-0.28%	-0.26%	-0.43%	-0.19%	-1.76%	0.35%
1 Week Price Chg	0.61%	0.67%	0.13%	0.17%	-2.32%	0.05%
4 Week Price Chg	3.89%	3.13%	2.78%	-3.26%	4.30%	-1.12%
12 Week Price Chg	1.88%	4.72%	8.67%	-4.64%	17.80%	2.69%
52 Week Price Chg	-3.61%	10.03%	27.07%	16.97%	20.79%	11.77%
20 Day Average Volume	324,435	354,972	1,731,328	969,734	5,758,283	414,525
(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%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-6.05%	0.90%	0.14%	-0.74%	2.96%	4.31%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%



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## 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.

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### 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	<b>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>B</b>
VGM Score	<b>B</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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