

Rogers Communications

4Q23 Wrap: Synergies ahead of schedule and lifting growth

Reiterate Rating: BUY | PO: 75.00 CAD | Price: 63.66 CAD

FCF estimate will move higher on 2024 guide

Rogers (RCI) reported in-line 4Q23 results which included faster-than-expected synergy realization at year-end and better-than-expected wireless subscriber growth. The positive momentum from 4Q will carry over into 2024. Consensus adjusted EBITDA was already assuming roughly 14% y/y growth but free cash flow guidance of \$2.9 - \$3.1bn will result in the consensus of \$2.8bn moving higher. We reiterate our Buy rating and C\$75 price objective. The synergy target is achievable with potential for further cost optimization in the future and longer-term revenue opportunities in the West that are outside the guide. We increase 2024E adj. EBITDA and FCF to reflect RCI guidance.

Strong gross additions offset elevated wireless churn

Wireless subscriber growth was surprisingly strong in 4Q despite higher-than-expected post-paid churn (1.67% vs. BofA 1.42%). Elevated churn was a result of elevated competitive intensity and a larger proportion of temporary workers and foreign students in the base. RCI is leveraging its strong distribution footprint and enhanced capabilities to bundle in the West to drive strong wireless volumes.

Proforma cable revenue declined in 4Q

On a proforma basis, Cable segment revenue declined in 4Q reflecting an intensely competitive environment. Since taking over Shaw's western cable facilities, RCI has focused on being more price competitive in the market which we expect will continue. Broadband subscriber growth improved in 4Q which is a positive sign for 2024. As RCI delivers on its synergy targets, Cable segment margins should expand further.

RCI expects \$1.0bn in 2024E non-core asset sales

RCI reiterated its goal of completing \$1.0bn in non-core asset sales in 2024E. We believe real-estate makes up the majority of these sales. Discussions with buyers are ongoing and we think it is likely RCI could announce its first sales in 1H24 with more to follow. Given the current course and speed of synergies, adj. EBITDA growth and asset sales we see RCI hitting its 3.5x leverage objective in 2Q26E.

Estimates (Dec) (C\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.75	4.63	4.07	4.99	5.83
EPS Change (YoY)	6.2%	23.5%	-12.1%	22.6%	16.8%
Consensus EPS (Bloomberg)			4.91	5.52	6.21
DPS	2.00	2.00	2.00	2.00	2.00
EPS (RCI - C\$)	3.75	4.63	4.07	4.99	5.83
DPS (RCI - C\$)	2.00	2.00	2.00	2.00	2.00
Valuation (Dec)					
P/E	17.0x	13.7x	15.6x	12.8x	10.9x
Dividend Yield	3.1%	3.1%	3.1%	3.1%	3.1%
EV / EBITDA*	12.1x	9.0x	7.9x	7.6x	7.2x
Free Cash Flow Yield*	4.3%	3.9%	7.2%	9.8%	10.7%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 05 February 2024 05:00AM EST

05 February 2024

Equity

Key Changes

(C\$)	Previous	Current
2024E Rev (m)	21,178.1	20,874.9
2025E Rev (m)	21,904.7	21,608.3
2026E Rev (m)	22,521.5	22,339.8
2024E EPS	3.80	4.07
2025E EPS	4.61	4.99
2026E EPS	5.34	5.83

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Stock Data

Price (TOR / NYS)	63.66 CAD / 47.31 USD
Price Objective	75.00 CAD / 60.00 USD
Date Established	3-Apr-2023 / 3-Apr-2023
Investment Opinion	A-1-7 / A-1-7
52-Week Range	50.15 CAD - 67.73 CAD
Market Value (mn)	32,739 CAD
Free Float	96.8%
Average Daily Value	95.52 USD
Shares Outstanding (mn)	514.3 / 514.3
BofA Ticker / Exchange	YRCIB / TOR
BofA Ticker / Exchange	RCI / NYS
Bloomberg / Reuters	RCI/B CN / RCIB.TO
ROE (2024E)	19.9%
Net Dbt to Eqty (Dec-2023A)	403.7%
ESGMeter™	High

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iQprofileSM Rogers Communications

iQmethodSM – Bus Performance*

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.2%	4.3%	5.4%	6.6%	7.3%
Return on Equity	18.6%	23.4%	19.9%	21.8%	22.1%
Operating Margin	22.8%	19.6%	21.9%	25.8%	27.6%
Free Cash Flow	1,418	1,287	2,362	3,205	3,519

iQmethodSM – Quality of Earnings*

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.3x	2.2x	2.9x	2.6x	2.3x
Asset Replacement Ratio	1.2x	1.0x	0.8x	0.8x	0.9x
Tax Rate	26.6%	37.8%	26.2%	26.2%	26.2%
Net Debt-to-Equity Ratio	199.2%	403.7%	347.8%	281.2%	221.7%
Interest Cover	2.8x	1.8x	2.1x	2.6x	3.0x

Income Statement Data (Dec)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	15,396	19,308	20,875	21,608	22,340
% Change	5.1%	25.4%	8.1%	3.5%	3.4%
Gross Profit	15,396	19,308	20,875	21,608	22,340
% Change	5.1%	25.4%	8.1%	3.5%	3.4%
EBITDA	6,393	8,581	9,801	10,265	10,736
% Change	8.6%	34.2%	14.2%	4.7%	4.6%
Net Interest & Other Income	(1,218)	(2,409)	(2,204)	(2,106)	(2,028)
Net Income (Adjusted)	1,915	2,406	2,176	2,698	3,188
% Change	6.2%	25.6%	-9.6%	24.0%	18.2%

Free Cash Flow Data (Dec)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,680	849	1,743	2,560	3,050
Depreciation & Amortization	2,576	4,121	4,648	4,503	4,386
Change in Working Capital	(152)	(627)	(433)	(290)	(315)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	389	878	321	259	264
Capital Expenditure	(3,075)	(3,934)	(3,916)	(3,827)	(3,866)
Free Cash Flow	1,418	1,287	2,362	3,205	3,519
% Change	3.3%	-9.2%	83.5%	35.7%	9.8%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(1,010)	(960)	(718)	(726)	(734)
Change in Debt	13,407	4,093	400	(3,499)	(1,161)

Balance Sheet Data (Dec)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	13,300	800	3,464	2,445	4,068
Trade Receivables	4,184	4,996	5,130	5,310	5,490
Other Current Assets	1,799	2,038	2,055	2,077	2,099
Property, Plant & Equipment	15,574	24,054	22,323	21,646	21,126
Other Non-Current Assets	20,798	37,394	37,704	37,634	37,564
Total Assets	55,655	69,282	70,675	69,112	70,348
Short-Term Debt	1,828	1,100	3,499	1,161	7,805
Other Current Liabilities	7,721	7,682	7,651	7,752	7,833
Long-Term Debt	31,571	41,844	39,845	38,684	30,879
Other Non-Current Liabilities	4,443	8,216	8,216	8,216	8,216
Total Liabilities	45,563	58,842	59,211	55,813	54,733
Total Equity	10,092	10,440	11,465	13,299	15,615
Total Equity & Liabilities	55,655	69,282	70,675	69,112	70,348

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Telecom Services-Wireless/Cellular

Company Description

Rogers has a national wireless footprint with three brands to address different segments of the market. With the Shaw merger, cable will have operations in all major provinces except Quebec. The media business is focused on Sport Content with ownership in major Canadian franchises including the Toronto Blue Jays baseball team. Over half of its EBITDA comes from the wireless business with 42% from cable and the remainder from Media.

Investment Rationale

RCI is well positioned to benefit from 1) continued strong demand for wireless data in a competitive but still-growing market, 2) improved wireline video and data performance with the continued rollout of Comcast's well-regarded X1 user interface, and 3) cost management leading margin improvement.

Stock Data

Average Daily Volume	2,018,457
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2023	2024
Q1	1.09A	0.88E
Q2	1.03A	0.90E
Q3	1.27A	1.17E
Q4	1.18A	1.11E

Key Changes

(C\$)	Previous	Current
2024E EPS	3.80	4.07
2025E EPS	4.61	4.99
2026E EPS	5.34	5.83

Exhibit 1: Estimate change summary

We increase 2024E adj. EBITDA and FCF to reflect RCI guidance

	New 1Q24E	Old 1Q24E	Change %	New 2024E	Old 2024E	Change %
Revenue	4,950	5,031	-1.6%	20,875	21,178	-1.4%
Adjusted EBITDA	2,355	2,330	1.1%	9,801	9,688	1.2%
Adjusted EPS	0.88	0.82	7.6%	4.07	3.80	7.0%
FCF	692	688	0.7%	3,071	2,594	18.4%
Net additions						
Postpaid	76	82	-8.2%	535	623	-14.2%
Prepaid	20	-9	-325.0%	27	12	113.7%
Broadband	15	15	0.0%	85	80	5.5%
Churn						
Postpaid	0.80%	0.78%	2.6%	1.11%	1.02%	8.2%
Wireless						
ARPU	57.76	56.06	3.0%	58.49	57.44	1.8%
Revenue						
Wireless						
Service	2,020	1,982	1.9%	8,345	8,316	0.4%
Equipment	503	560	-10.2%	2,434	2,629	-7.4%
Total	2,523	2,542	-0.7%	10,779	10,945	-1.5%
Cable						
Cable	1,986	2,025	-1.9%	8,023	8,055	-0.4%
Media						
Media	511	511	0.0%	2,363	2,363	0.0%
EBITDA						
Wireless	1,313	1,288	1.9%	5,400	5,361	0.7%
Cable	1,128	1,139	-1.0%	4,553	4,468	1.9%
Media	-38	-51	-24.8%	103	103	0.5%
Capex						
Wireless	491	482	1.9%	1,716	1,797	-4.5%
Cable	497	445	11.5%	2,006	1,903	5.4%
Media	14	14	0.0%	57	57	0.0%

Source: BofA Global Research

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Price objective basis & risk

Rogers Communications (YRCIB / RCI)

Our C\$75 (US\$60) price objective is based on a forward (2024E) EV/EBITDA multiple of 8.1x. This is above RCI 5-year average multiple of 7.8x but within the range of 6.8x to 9.0x. We believe a multiple near the upper end of its historical range is justified after its merger with Shaw due to 1) synergy realization, 2) ample FCF to delever the balance sheet, and 3) expanded growth opportunities. .

Downside risks to our PO are the inability to reach cost synergy targets, merger integration issues, and higher than expected costs required to realize targeted synergies.

Analyst Certification

I, David W. Barden, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Telecom Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	AT&T Inc.	T	T US	David W. Barden, CFA
	Cogent	CCOI	CCOI US	David W. Barden, CFA
	Digital Realty Trust Inc	DLR	DLR US	David W. Barden, CFA
	Dycom Industries, Inc.	DY	DY US	Alexander Waters
	Equinix, Inc.	EQIX	EQIX US	David W. Barden, CFA
	Quebecor Inc.	YQBRB	QBR/B CN	Matthew Griffiths, CFA
	Rogers Communications	RCI	RCI US	David W. Barden, CFA
	Rogers Communications	YRCIB	RCI/B CN	David W. Barden, CFA
	TELUS Corporation	YT	T CN	David W. Barden, CFA
	TELUS Corporation	TU	TU US	David W. Barden, CFA
	T-Mobile US	TMUS	TMUS US	David W. Barden, CFA
NEUTRAL				
	BCE Inc.	YBCE	BCE CN	David W. Barden, CFA
	BCE Inc.	BCE	BCE US	David W. Barden, CFA
	Crown Castle Inc	CCI	CCI US	David W. Barden, CFA
	SBA Communications Corporation	SBAC	SBAC US	David W. Barden, CFA
	Verizon Communications Inc.	VZ	VZ US	David W. Barden, CFA
UNDERPERFORM				
	Cogeco Communications Inc.	YCCA	CCA CN	Matthew Griffiths, CFA
	Lumen Technologies Inc.	LUMN	LUMN US	David W. Barden, CFA
	Uniti Group Inc	UNIT	UNIT US	David W. Barden, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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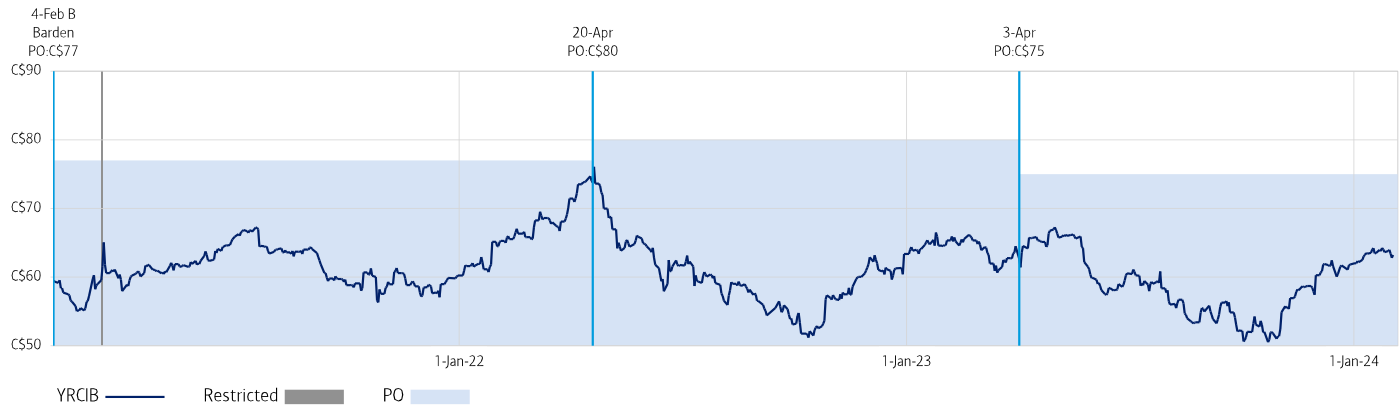
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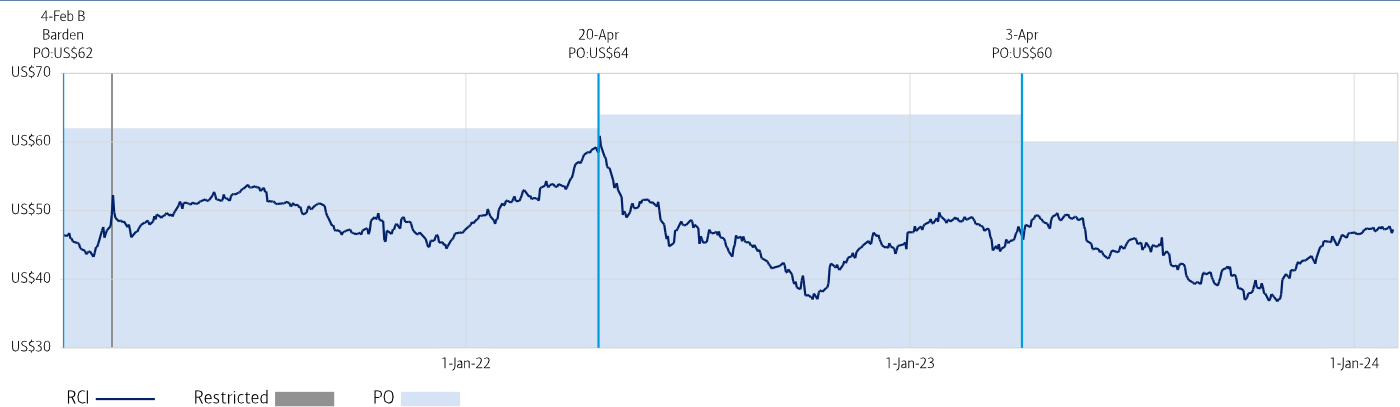
Rogers (YRCIB) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Rogers (RCI) Price Chart



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Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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