

Rogers Communications

4Q23 Preview: Delivering merger synergies and leading wireless subscriber growth

Reiterate Rating: BUY | PO: 75.00 CAD | Price: 62.34 CAD

Synergies developing as expected, 1H asset sales coming

We have updated our Rogers (RCI) model ahead of 4Q results and the release of its 2024 financial guidance scheduled for February 2, 2024. RCI is on track to deliver its post-merger synergy and deleveraging targets. We expect no changes to RCI's \$1.0bn in synergies within 24 months of closing and leverage of 3.5x net debt to adjusted EBITDA within 36 months. In the near-term, we anticipate up to \$1.0bn in non-core assets sales to incrementally help with deleveraging. We reiterate our Buy rating; RCI remains our top pick among Canadian telecommunication stocks.

Higher customer activity levels, higher churn

Seasonal promotions and immigration-led market growth resulted in typically elevated 4Q wireless market activity. Given RCI's leading position among immigrants, students, and foreign workers, we expect RCI will once again post the industry's highest wireless postpaid net additions (BofA 145k), but 4Q consensus (195k) appears too high to us. We raised our churn estimate to 1.42% to reflect a promotional 4Q with consumers actively shopping around for deals (Street at 1.3% appears too low to us). Reported blended wireless average revenue per user (ARPU) is forecast to decline 1.5% y/y, largely driven by the inclusion of Shaw Mobile subscribers in the base. Absent this, same store sales ARPU likely grew modestly (~0.5%).

Incremental broadband subscriber improvement

Competition for broadband subscribers remains intense as RCI battles for share against an expanding telco fiber footprint. We believe RCI is making progress on competing more effectively against fiber but continues to grow at a slower pace than its telco peers. We increased our broadband net add forecast to 16k from 7k. We forecast cable margins of 56% and adjusted EBITDA of \$1.1bn (in-line with the Street).

Moving Media estimates lower

We lowered our Media EBITDA estimates ahead of 4Q to reflect last year's Major League Baseball's distribution of ~\$40mn after a divestment and higher current player salaries. We forecast adj. EBITDA of \$6mn (below the Street at \$47mn).

Estimates (Dec) (C\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.53	3.75	4.50	3.80	4.61
EPS Change (YoY)	3.8%	6.2%	20.0%	-15.6%	21.3%
Consensus EPS (Bloomberg)			4.47	5.06	5.84
DPS	2.00	2.00	2.00	2.00	2.00
EPS (RCI - C\$)	3.53	3.75	4.50	3.80	4.61
DPS (RCI - C\$)	2.00	2.00	2.00	2.00	2.00
Valuation (Dec)					
P/E	17.7x	16.6x	13.9x	16.4x	13.5x
Dividend Yield	3.2%	3.2%	3.2%	3.2%	3.2%
EV / EBITDA*	13.1x	12.1x	9.0x	8.0x	7.7x
Free Cash Flow Yield*	4.3%	4.4%	4.8%	6.9%	9.0%

* 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: 04 January 2024 05:00AM EST

04 January 2024

Equity

Key Changes

(C\$)	Previous	Current
2023E Rev (m)	19,290.3	19,174.5
2024E Rev (m)	21,340.3	21,178.1
2025E Rev (m)	22,053.4	21,904.7
2023E EPS	4.29	4.50
2024E EPS	4.42	3.80
2025E EPS	5.57	4.61

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Stock Data

Price (TOR / NYS)	62.34 CAD / 46.67 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)	32,060 CAD
Free Float	96.8%
Average Daily Value	116.23 USD
Shares Outstanding (mn)	514.3 / 514.3
BofA Ticker / Exchange	YRCB / TOR
BofA Ticker / Exchange	RCI / NYS
Bloomberg / Reuters	RCI/B CN / RCIb.TO
ROE (2023E)	22.0%
Net Dbt to Eqty (Dec-2022A)	199.2%

ESGMeterTM

High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Rogers Communications

iQmethodSM – Bus Performance*

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	6.4%	6.2%	4.2%	5.3%	6.4%
Return on Equity	17.9%	18.6%	22.0%	17.6%	19.4%
Operating Margin	20.3%	22.8%	18.7%	21.6%	25.1%
Free Cash Flow	1,373	1,418	1,530	2,217	2,879

iQmethodSM – Quality of Earnings*

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.3x	2.3x	2.3x	3.0x	2.7x
Asset Replacement Ratio	1.1x	1.2x	0.9x	0.9x	0.9x
Tax Rate	26.8%	26.6%	34.0%	26.2%	26.2%
Net Debt-to-Equity Ratio	186.0%	199.2%	380.9%	335.2%	279.4%
Interest Cover	3.5x	2.8x	1.7x	1.9x	2.4x

Income Statement Data (Dec)

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	14,655	15,396	19,175	21,178	21,905
% Change	5.3%	5.1%	24.5%	10.4%	3.4%
Gross Profit	14,655	15,396	19,175	21,178	21,905
% Change	5.3%	5.1%	24.5%	10.4%	3.4%
EBITDA	5,887	6,393	8,576	9,688	10,099
% Change	0.5%	8.6%	34.1%	13.0%	4.2%
Net Interest & Other Income	(851)	(1,218)	(2,268)	(2,399)	(2,299)
Net Income (Adjusted)	1,803	1,915	2,337	2,034	2,495
% Change	4.5%	6.2%	22.0%	-13.0%	22.7%

Free Cash Flow Data (Dec)

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,558	1,680	865	1,601	2,357
Depreciation & Amortization	2,585	2,576	4,105	4,533	4,419
Change in Working Capital	37	(152)	(455)	(346)	(270)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(19)	389	851	323	270
Capital Expenditure	(2,788)	(3,075)	(3,837)	(3,894)	(3,897)
Free Cash Flow	1,373	1,418	1,530	2,217	2,879
% Change	-31.7%	3.3%	7.9%	44.9%	29.9%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(1,010)	(1,010)	(947)	(718)	(726)
Change in Debt	1,513	13,407	5,029	400	(3,548)

Balance Sheet Data (Dec)

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	715	13,300	2,081	4,600	3,205
Trade Receivables	3,847	4,184	4,314	4,541	4,695
Other Current Assets	1,267	1,799	1,895	1,926	1,946
Property, Plant & Equipment	14,666	15,574	23,747	22,108	21,586
Other Non-Current Assets	21,468	20,798	38,201	38,511	38,441
Total Assets	41,963	55,655	70,238	71,685	69,873
Short-Term Debt	1,551	1,828	1,100	3,548	1,176
Other Current Liabilities	7,068	7,721	7,006	7,170	7,276
Long-Term Debt	18,758	31,571	43,382	41,334	40,158
Other Non-Current Liabilities	4,054	4,443	7,617	7,617	7,617
Total Liabilities	31,431	45,563	59,105	59,669	56,227
Total Equity	10,532	10,092	11,133	12,016	13,647
Total Equity & Liabilities	41,963	55,655	70,238	71,685	69,873

* 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

RCL 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	2,489,106
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2022	2023
Q1	0.91A	1.09A
Q2	0.86A	1.03A
Q3	0.84A	1.27A
Q4	1.09A	1.05E

Key Changes

(C\$)	Previous	Current
2023E EPS	4.29	4.50
2024E EPS	4.42	3.80
2025E EPS	5.57	4.61

Exhibit 1: Estimate change summary for 4Q23E

Consolidated EBITDA change reflects lower media estimates

	Q4'23 BofA New	Q4'23 BofA Old	Consensus	New vs. old Delta (\$)	New vs. old Delta (%)	Comments
Consolidated						
Total Revenue	\$5,202	\$5,317	\$5,344	-\$116	-2%	
Service Revenue	\$4,474	\$4,597	\$4,571	-\$123	-3%	
Adj. EBITDA	\$2,324	\$2,374	\$2,387	-\$50	-2%	Reflects lower Media and Wireless estimates offset by stronger forecast cable results
Capex	\$849	\$858	\$901	-\$9	-1%	
Free Cash Flow	\$773	\$909	\$899	-\$136	-15%	
Adj. EPS	\$1.05	\$0.84	\$1.09	\$0.21	25%	
Wireless						
Service Revenue	\$2,025	\$2,039	\$2,023	-\$14	-1%	Reflects slightly lower wireless ARPU assumption and continued subscriber growth
Equipment Revenue	\$721	\$713	\$765		1%	
Adj. EBITDA	\$1,276	\$1,332	\$1,292	-\$56	-4%	Adjusted margins to 63% for 4Q reflect synergy estimate shift to cable from wireless.
Capex	\$419	\$422	\$409		-1%	
Postpaid mobile phone gross adds	588k	575k	597k		2%	Higher gross adds reflect increased activity in the market in 4Q
Postpaid mobile phone net adds	145k	185k	192k		-22%	
Postpaid mobile phone churn	1.42%	1.25%	1.30%		14%	Higher competitive intensity and switching will drive higher churn
Prepaid mobile phone net adds	(8k)	(8k)	(5k)		0%	
Blended mobile phone ARPU	\$57.81	\$58.10	\$57.62		-1%	Lowering ARPU to reflect continued impact of Shaw mobile subs and competitive environment
Cable						
Revenue	\$1,978	\$2,008	\$2,007	-\$31	-2%	Reflect our change in cable ARPA
Adj. EBITDA	\$1,108	\$1,077	\$1,118	\$31	3%	Estimate 56% cable margin. Shifting estimated synergies from wireless to cable in 4Q
Capex	\$396	\$402	\$441		-2%	
Total Video net adds	5k	5k	10k		0%	
Retail Internet net adds	16k	7k	16k		141%	Increased broadband net adds to reflect improving performance in west
Customer Relationships	4775k	4785k	4789k	-10k	0%	Forecast total cord cutting greater than broadband only net adds
ARPA	\$137.50	\$139.50	\$138.82		-1%	Lowered ARPA to reflect lack of price increases in the quarter
Media						
Revenue	\$558	\$636	\$610	-\$79	-12%	3Q included asset revaluation which will not repeat in 4Q
Adj. EBITDA	\$6	\$38	\$47	-\$33	-85%	Higher player salaries
Capex	\$14	\$14	\$29		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
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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
	Dish Network Corporation	DISH	DISH US	David W. Barden, 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

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$
Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Shareholders' Equity
Sales
N/A
N/A

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$
Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
 $\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$
Sales

Basic EBIT + Depreciation + Amortization

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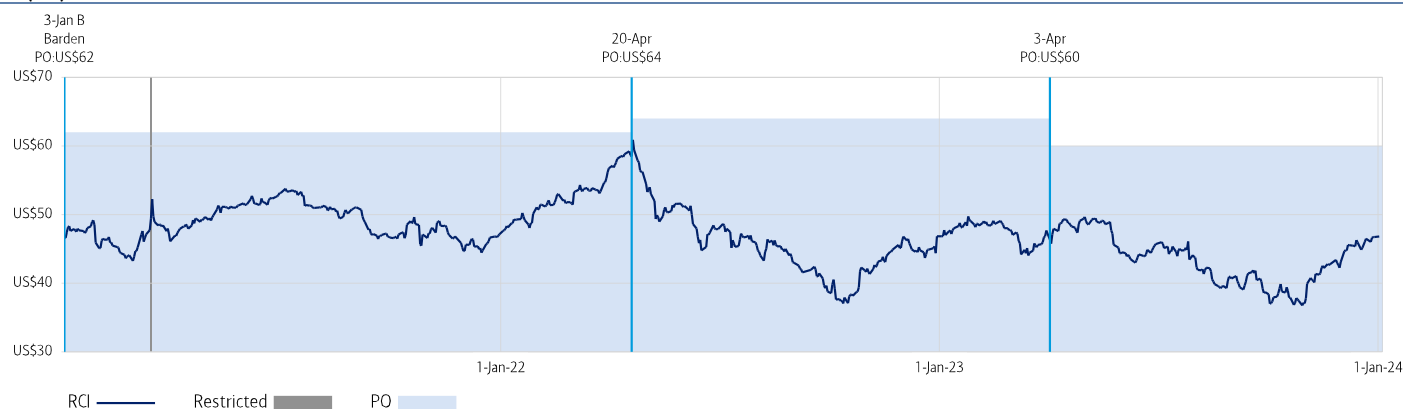
Important Disclosures

Rogers (YRCIB) Price Chart



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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