

## Company Research: Rogers Communications (RCI)

**Recommendation: Outperform**

**Target Price: C\$74**

### **Summary:**

Rogers Communications Inc. was founded in 1960 and is headquartered in Toronto with over 26,000 employees. **It operates through three segments which are wireless, cable and media.** The firm's shares are publicly traded on the Toronto Stock Exchange (TSX: RCI.A and RCI.B) and on the New York Stock Exchange (NYSE: RCI). On April 3, 2023, Rogers completed the acquisition of Shaw Communication Inc. and expand its business in the western Canada. It is the largest merger in Canadian telecom industry. Additionally, Rogers acquired BAI Canada and introduced 5G cell services to subway riders on the TTC.

By acquiring Shaw, Rogers expands its business in Western Canada (British Columbia, Alberta, Saskatchewan, and Manitoba) and increases its market share.

**In 2023 Annual report, Rogers Communications reported total revenue of C\$19.3 billion, a 25% growth compared to 2022.** The company held C\$5.9 billion in available liquidity, including C\$0.8 billion in cash. However, the firm's debt leverage ratio was 5.0, which remains a concern.

The total revenue of the wireless segment increased to C\$10 billion (52% of the total revenue). This indicates the stable growth of the number of wireless mobile phone subscribers, which is approximately 11.6 million, representing about one-third of the subscribers and revenue share of the Canadian wireless market. Notably, Rogers serves 5G network in over 2,200 communities.

In the cable segment, it generated C\$7 billion (36% of the total revenue), increasing by 72% compared to 2022. This growth is due to the firm's acquisition of Shaw, an increased retail internet subscriber base, and the effect of the July 2022 network outage-related credit.

Lastly, the total revenue of the media segment generated C\$2.3 billion (12% of the total revenue). The revenue was primarily from the sport-related operations.

**In 2024, the firm plans to invest C\$4 billion to expand 5G services across Canada. Moreover, Rogers plans to launch the DOCSIS 4.0 Internet roadmap to deliver better services to Canadians.**

*(Source: Rogers Communications 2023 Annual Reports)*

### **Business Description:**

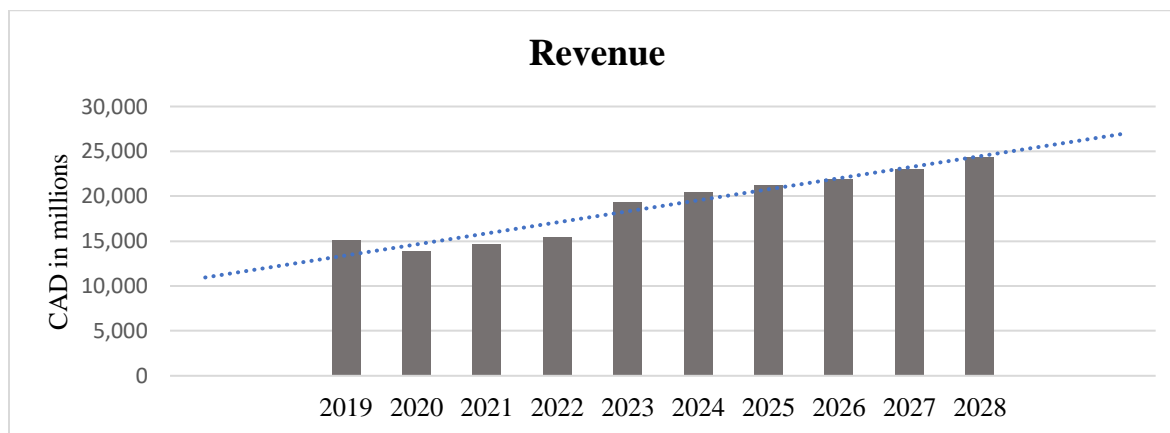
Rogers is Canada's leading wireless, cable and media company.

Segment	Description
<b>Wireless</b>	Rogers is the largest provider of wireless communication services to both residential and enterprise business customers. It delivers postpaid and prepaid wireless services through Rogers, Fido, Chatr brands.
<b>Cable</b>	Rogers provides innovative and leading Internet, television and other video, satellite, phone, smart home monitoring and home WiFi services for Canadian consumers and businesses.
<b>Media</b>	Rogers operates sports and regional TV and radio programming. In Sports Media and Entertainment, Rogers owns the Toronto Blue Jays, Major League Baseball team and the Rogers centre. In television, it operates Citytv network, Canada's only national shopping channel, OMNI multicultural broadcast television stations, and more. In radio, it owns 52 AM and FM radio stations across Canada.

### **Data Overview:**

(CAD)

52 Week Range	50.15 - 65.66
Market Cap	29.3B
Enterprise Value	74.59B
Volume	585960
Beta	0.56
P/E ratio(TTM)	50.25
EPS(TTM)	1.09
Trailing Dividend Yield	3.68%



Source: Yahoo Finance

### **Industry Overview and Competitive Positioning:**

The telecommunication industry is capital intensive and highly regulated. This industry is primarily controlled by three large companies: Rogers Communications, Bell Canada and Telus Corporation, alongside some smaller regional players and new entrants. These companies provide a broad range of services to customers and share the market.

In wireless technology, Rogers competes with BCE Inc. (Bell), TELUS Corporation (Telus), Videotron, Saskatchewan Telecommunications Holding Corporation (SaskTel) and Eastlink Inc. (Eastlink) on 5G

network, high-speed packet access (HSPA) and mobile virtual network operators (MVNO). The firm has won 860 spectrum licences in the 3800 MHz spectrum license auction, covering 87% of the Canadian population, which it secured a strong competitive position e in this field.

In the cable segment, Rogers competes with BCE Inc., TELUS Corporation, TekSavvy and other smaller providers in Internet services. Moreover, in the Cable TV series, BCE Inc shows strong competitiveness by offering triple-play services at lower prices. Rogers is losing viewer to video streaming service provides, including Netflix, Disney+, and others.

In the media segment, Rogers faces the competition from online information and entertainment websites, e-commerce retailers, Canadian television and radio stations such as CBC, Bell Media and OTT video and radio providers such as Apple, Netflix, and Amazon.

### **Valuation:**

The one-year price target of C\$ 74 is based on the average of three approaches: (1) Applying target EV/EBITDA multiple of 7x to adjusted EBITDA estimate (2) Applying target P/E multiple of 19x to the EPS estimate (3) Discounted free cash flow (Growth exit 5Y) with a WACC of 6.2% and growth rate of 2%.

### **2024 Q1-Financial Analysis:**

**Consolidated total revenue was C\$4.9, increasing by 28.9% year over year.** This primarily caused by the revenue growth in wireless and cable businesses. Adjusted earnings decreased by 9.2% year over year to C\$0.99.

**The debt leverage ratio reduces to 4.7 as of March 31, 2024, reducing 6% compared last year.** The transaction of Shaw increased the ratio.

#### **Wireless Service:**

As of March 31, 2024, wireless revenue increased 7.8% year over year to C\$2.53 billion. The adjusted EBITDA increased 8.5% year over year to C\$1.28 billion. The adjusted EBITDA margin increased by 54 basis points on year over year basis to 50.79%.

The operating cost of wireless segment increased 6.1% year over year to C\$5.39 billion.

#### **Cable Service:**

As of March 31, 2024, cable revenue surged by 93.5% year over year to C\$1.96 billion. The adjusted EBITDA also experienced substantial growth, rising by 97.5% year over year to C\$1.1 billion, compared with 0.56 billion as of March 31, 2023.

The operating expenses of cable segment jumped 86.7% year over year to C\$0.86 billion.

#### **Media Service:**

As of March 31, 2024, media revenue declined by 5.1% on a year-over-year basis to C\$0.48 billion, due to lower subscriber revenue. The adjusted EBITDA was -C\$0.1 billion.

The operating expenses of media segment increased 7.2% year over year to C\$0.58 billion.

*(Source: Rogers 2024 Q1 Report)*

### **Investment Summary:**

Rogers Communication is poised for substantial growth as it aims to connect Canadians to Canada's largest and best 5G network and the country's only coast-to-coast Internet network.

Moreover, Rogers is largest wireless carrier in Canada and anticipates steady revenue growth. After acquisition of Shaw, Rogers expands its business in the Western Canada, contributing to increased revenue.

Rogers plans to invest \$2.5 billion over five years to enhance and expand 5G coverage across Western Canada and \$3 billion over the same period to operate its cable network and services. Additionally, in order to maintain its prominence in Western Canada, Rogers aims to create 30,000 new jobs within five years.

Lastly, Rogers Communications was the first wireless operator to offer Internet of Things (IoT) to business customer, allowing for the seamless flow of data.

### **Investment Risks:**

Due to large investment, the debt leverage ratio is 5.0, remains a concern when compared with industry competitors. Rogers competes with BCE Inc, TELUS Corporation, regional provider and global companies, such as Netflix, Apple, Disney+ and others. Furthermore, the changes in government regulations could impact the company's revenue. Lastly, the firm should also consider the Environmental, Social, and Governance (ESG) factors to ensure sustainability.

### **Recent News:**

April 25, 2024 – Amazon, Rogers Communications, and National Hockey League (NHL) announced a milestone two-year agreement in Canada to bring hockey fans Monday night NHL hockey exclusively on Prime Video.

February 7, 2024 – Rogers Communications announced that it has issued senior notes with an aggregate principal amount of US\$2.5 billion of 5.0% senior notes due 2029 and US\$1.25 billion of 5.3% senior notes due 2034.

*(Source: Rogers Website)*