DSR STOCK CARD

12/10/2022

ROGERS COMMUNICATIONS (RCI.B.TO) (RCI)

Business Model

Rogers is the largest wireless service provider in Canada, with its more than 10 million subscribers equating to one third of the total Canadian market. Rogers' wireless business accounted for 60% of the company's total sales in 2021 and has increasingly provided a larger portion of total company sales over the last several years. Rogers' cable segment, which provides about one fourth of total sales, offers home internet, television, and landline phone service to consumers and businesses. Remaining sales come from Rogers' media unit, which owns and operates various television and radio stations and the Toronto Blue Jays. Rogers' significant exposure to sports also includes ownership stakes in the Toronto Maple Leafs, Raptors, FC, and Argonauts.

The Company in a Nutshell

- Rogers' wireless business accounted for over 60% of the company's total sales in 2021.
- RCI has adapted since its creation to offer the services and technology its customers are seeking.
- Rogers has high exposure to sport teams in Ontario (NHL, NBA, MLS, CLF).

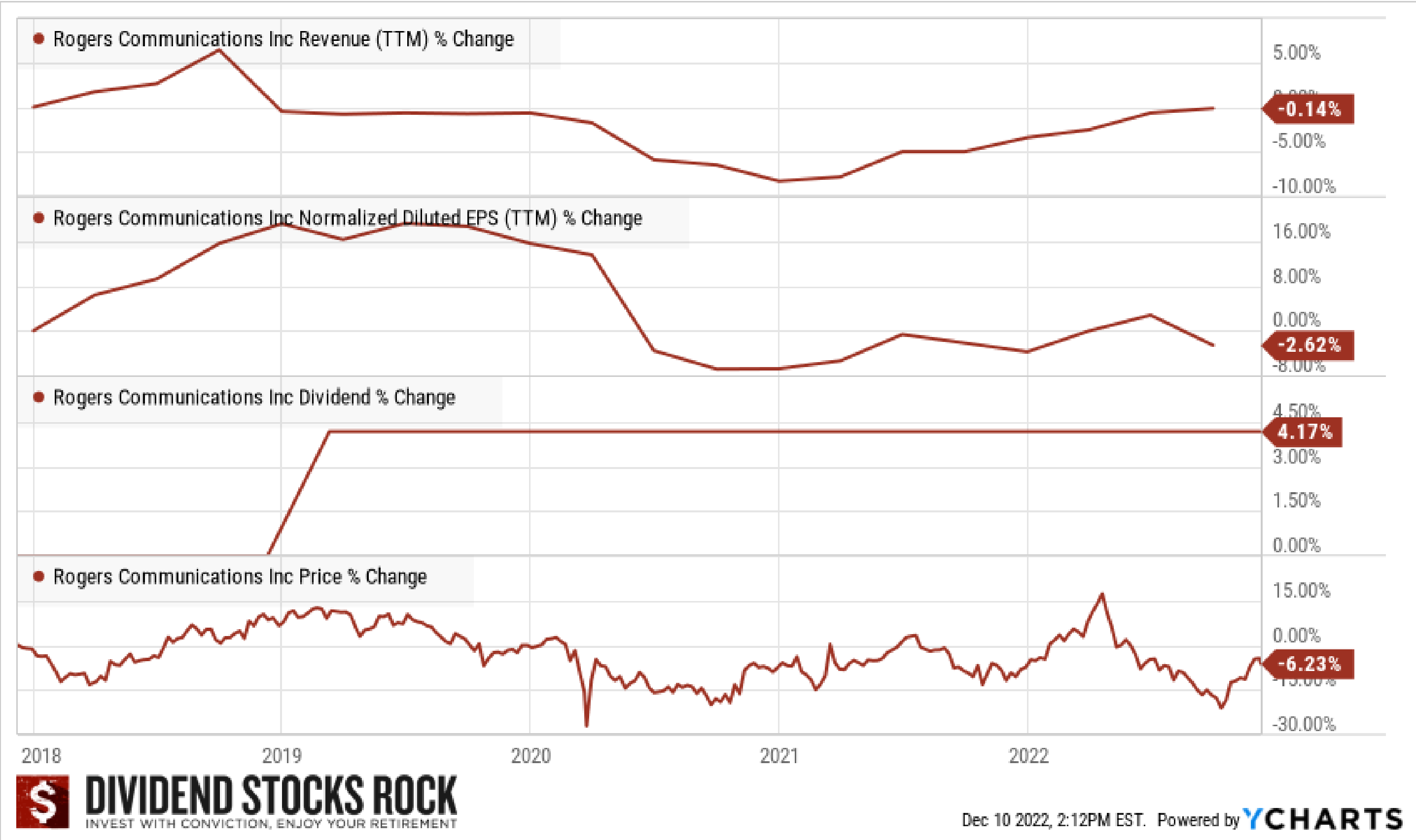
Investment Thesis

RCI is a strong telecom company with a competitive edge in the sporting events segment, along with a growing wireless division. Management is focused on cutting costs in their operations to improve margins. RCI is well-established in the telecom industry with a dominant position in Ontario. It provides fast internet services through its wireline network. Its media and wireless segments will continue to exhibit growth in the coming years. RCI's decision to focus on sports broadcasting is also giving it an edge in the television industry. RCI is now in the process of acquiring Shaw Communications to consolidate its dominant position in cable. The transaction hasn’t closed yet as the company faces some regulation hurdles.

VALUATION

Dividend Growth Rate Years 1-10: 2.00% **Terminal Dividend Growth Rate**: 2.00%

	Discount Rate (Horizontal)		
Margin of Safety	**9.00%**	**10.00%**	**11.00%**
20% Premium	$34.97	$30.60	$27.20
10% Premium	$32.06	$28.05	$24.93
Intrinsic Value	$29.14	**$25.50**	$22.67
10% Discount	$26.23	$22.95	$20.40
20% Discount	$23.31	$20.40	$18.13



Potential Risks

Rogers may own the largest spectrum portfolio in Canada, but it paid a high price for those assets. This could limit profitability in the future. It is facing fierce competition in the wireless industry (Freedom Mobile, which must be sold if RCI wants to acquire Shaw, along with the other members of the Big 3) and BCE is also a strong player in the wireline business with its fiber-to-home technology. Rogers still generates significant revenues from its television subscriptions, despite the fact that this industry is not growing. The acquisition of Shaw could be a good move to consolidate Rogers' position in the cable industry, but television subscriptions are still on a long-term secular decline. The pending deal isn't rolling out smoothly and Rogers must adjust rapidly to move forward. Rogers' major network outage in early July shows us that even the big telcos could fail their customers.

Dividend Growth Perspective

Rogers offered its first dividend increase since 2015 in 2019. We think the dividend is safe now. The company is doing well, and the payout ratios are in line. However, with the mega merger in the background, it seems that there will be a dividend increase in the near term. We will monitor Rogers' dividend growth policy closely. In the meantime, you might get a better deal (in terms of the dividend) with Telus or BCE.