EQUITY RESEARCH FIRST GLANCE

Capital Markets

**RBC Dominion Securities Inc.**
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**Sector: Telecommunications & Wireless**

April 21, 2021

# Rogers Communications Inc.

## Q1/21 Results - Still a Little Choppy but Headline and Underlying Results Better than Expected

**Our view:** Q1/21 results were better than expected on both a headline and underlying basis. We expect a positive reaction in the shares with management providing detailed in-quarter Q2 guidance during the 8am ET conference call.

### First impression

- **Q1/21 results ahead of our expectations.** Consolidated revenues and EBITDA were $3,488MM (+2.1% YoY) and $1,391MM (+4.2% YoY), respectively, versus our estimates of $3,366MM and $1,329MM (consensus is $3,353MM and $1,330MM). The positive revenue variance was largely due to higher-than-expected wireless equipment revenues ($465MM versus $389MM) and Rogers Media ($440MM versus $416MM) with underlying wireless and cable results still exceeding our forecast. Consolidated EBITDA margins were 39.9% (+80bps YoY) versus our estimate of 39.5%. Please see Exhibit 1 for a summary of Q1/21 results versus our expectations.
- **Wireless ARPU decline in line with strong postpaid net additions.** Wireless revenues and EBITDA were $2,074MM (-0.1% YoY) and $1,013MM (-1.3%), respectively, versus our estimates of $1,992MM and $992MM (consensus is $2,007MM and $997MM). Wireless EBITDA margins were 48.8% (-56bps YoY) versus our 49.8% estimate (+42bps) with ARPU pressure mitigated by EIPs, simplification efforts and other cost efficiencies. Key wireless metrics: (i) postpaid net additions were +44k versus our estimate of +12k (consensus is +3k); (ii) postpaid churn was 0.88% (-5bps YoY) versus our 0.94% estimate (consensus is 0.89%); and (iii) ARPU growth was -7.1% versus our estimate of -7.5% (consensus is -7.0%).
- **Another solid financial performance for cable.** Cable revenues and EBITDA were $1,020MM (+4.8% YoY) and $487MM (+7.5%), respectively, versus our estimates of $1,005MM and $483MM (consensus is $994MM and $471MM). Cable EBITDA margins were 47.7% (+119bps YoY) versus our estimate of 48.1% (+150bps). Key cable metrics: (i) Internet net additions were +14k versus our estimate of +15k (consensus is +13k); (ii) Ignite TV net additions were +58k versus our estimate of +50k (consensus is +53k); (iii) cable customer relationships net additions were +6k versus our estimate of +3k (consensus is +1k); and (iv) cable ARPA increased +3.9% versus our estimate of +2.5% (consensus is +2.2%).
- **Other notables:** (i) management did not provide full-year guidance as expected; and (ii) media revenues and EBITDA were $440MM (+6.8% YoY) and -$59MM, respectively, versus our estimates of $416MM and -$86MM.
- **What to look for on the 8:00am conference call (#800-319-4610):** (i) in-quarter Q2 guidance; (ii) extent to which higher wireless activity can be sustained; and (iii) an update on the competitive environment.

## Outperform

TSX: RCI.B; CAD 61.54; NYSE: RCI

**Price Target CAD 74.00**

All values in CAD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).
Report priced as of 11:30am EST April 19, 2021.

## Exhibit 1 - Summary of Q1/21 Results, RBC CM Estimates, and Consensus

| Rogers Communications | | | RBC Capital Markets | | | Consensus[3] | |
|---|---|---|---|---|---|---|---|
| Q1/21 Results Summary | Q1/21A | YoY Δ | Q1/21E | YoY Δ | Q1/20 | Q1/21E | YoY Δ |
| **Financial Summary (C$MM)** | | | | | | | |
| **Revenue** | | | | | | | |
| Network | 1,609 | -6.0% | 1,603 | -6.4% | 1,712 | 1,607 | -6.1% |
| Equipment | 465 | 27.4% | 389 | 6.6% | 365 | 401 | 9.7% |
| Wireless | 2,074 | -0.1% | 1,992 | -4.1% | 2,077 | 2,007 | -3.4% |
| Service | 1,018 | 4.8% | 1,003 | 3.3% | 971 | | |
| Equipment | 2 | 0.0% | 2 | 0.0% | 2 | | |
| Cable | 1,020 | 4.8% | 1,005 | 3.3% | 973 | 994 | 2.1% |
| Media | 440 | 6.8% | 416 | 1.0% | 412 | 416 | 1.0% |
| Corporate & Eliminations | (46) | - | (47) | - | (46) | (65) | |
| | **3,488** | **2.1%** | **3,366** | **-1.5%** | **3,416** | **3,353** | **-1.9%** |
| **EBITDA** | | | | | | | |
| Wireless | 1,013 | -1.3% | 992 | -3.3% | 1,026 | 997 | -2.8% |
| Cable | 487 | 7.5% | 483 | 6.7% | 453 | 471 | 4.0% |
| Media | (59) | - | (86) | - | (85) | (81) | - |
| Corporate & Eliminations | (50) | - | (60) | - | (59) | (57) | |
| | **1,391** | **4.2%** | **1,329** | **-0.4%** | **1,335** | **1,330** | **-0.4%** |
| **EBITDA Margin** | | | | | | | |
| Wireless | 48.8% | -56bps | 49.8% | 42bps | 49.4% | 49.7% | 28bps |
| Cable | 47.7% | 119bps | 48.1% | 150bps | 46.6% | 47.4% | 84bps |
| Media | - | - | - | - | - | - | - |
| | **39.9%** | **80bps** | **39.5%** | **41bps** | **39.1%** | **39.7%** | **58bps** |
| **Adjusted EPS** | **$0.77** | **5.5%** | **$0.66** | **-8.9%** | **$0.73** | **$0.65** | **-11.0%** |
| **FCF[1]** | **394** | **-14.7%** | **155** | **-66.3%** | **462** | **271** | **-41.3%** |
| **Capex** | **484** | **-18.4%** | **597** | **0.7%** | **593** | **599** | **1.0%** |
| *% revenue* | *13.9%* | *-348bps* | *17.7%* | *38bps* | *17.4%* | *17.9%* | 51bps |
| **Operating Summary (000s)** | | | | | | | |
| Wireless Blended ARPU | $49.09 | -7.1% | $48.89 | -7.5% | $52.85 | $49.14 | -7.0% |
| Wireless Blended ABPU | $62.13 | -4.6% | $62.53 | -4.0% | $65.14 | $62.26 | -4.4% |
| Wireless Postpaid Subscribers[2] | 9,727 | 3.1% | 9,695 | 2.8% | 9,432 | 9,686 | 2.7% |
| Net Additions | 44 | - | 12 | - | (6) | 3 | - |
| Wireless Prepaid Subscribers[2] | 1,204 | -9.9% | 1,223 | -8.5% | 1,336 | 1,208 | -9.6% |
| Net Additions | (56) | - | (37) | - | (66) | (52) | - |
| Postpaid Churn | 0.88% | -5bps | 0.94% | 1bps | 0.93% | 0.89% | -4bps |
| Cable ARPA | $133.95 | 3.9% | $132.13 | 2.5% | $128.91 | $131.79 | 2.2% |
| Cable Customer Relationships | 2,536 | 1.0% | 2,533 | 0.8% | 2,512 | 2,531 | 0.8% |
| Net Additions | 6 | 200.0% | 3 | 25.0% | 2 | 1 | -50.0% |
| Ignite TV Subscribers | 602 | 44.4% | 594 | 42.4% | 417 | 597 | 43.2% |
| Net Additions | 58 | -36.3% | 50 | -45.1% | 91 | 53 | -41.8% |
| Internet Subscribers | 2,612 | 2.4% | 2,613 | 2.4% | 2,551 | 2,611 | 2.4% |
| Net Additions | 14 | -17.6% | 15 | -11.8% | 17 | 13 | -23.5% |

[1]Free Cash Flow (FCF) is defined as EBITDA - interest - cash taxes - capex to be consistent with management guidance

[2]Wireless postpaid subscribers and wireless subscribers included wireless home phone and Unison

[3]Company compiled consensus provided on March 29, 2021; FactSet consensus taken on April 20, 2021

Sources: Company reports, RBC Capital Markets estimates, FactSet


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## Company description

Rogers Communications consists of Cable, Wireless and Media, which includes radio, TV, and the Toronto Blue Jays. Rogers Cable is the incumbent cable provider in Toronto, Ottawa, and parts of Atlantic Canada. Rogers Wireless is the largest national wireless operator in Canada. Rogers also owns a 37.5% equity stake in the MLSE and has a minority stake in Cogeco/Cogeco Communications. In March 2021, Rogers announced the proposed acquisition of Shaw Communications.

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|---|---|---|---|---|
| Rating | Count | Percent | Count | Percent |
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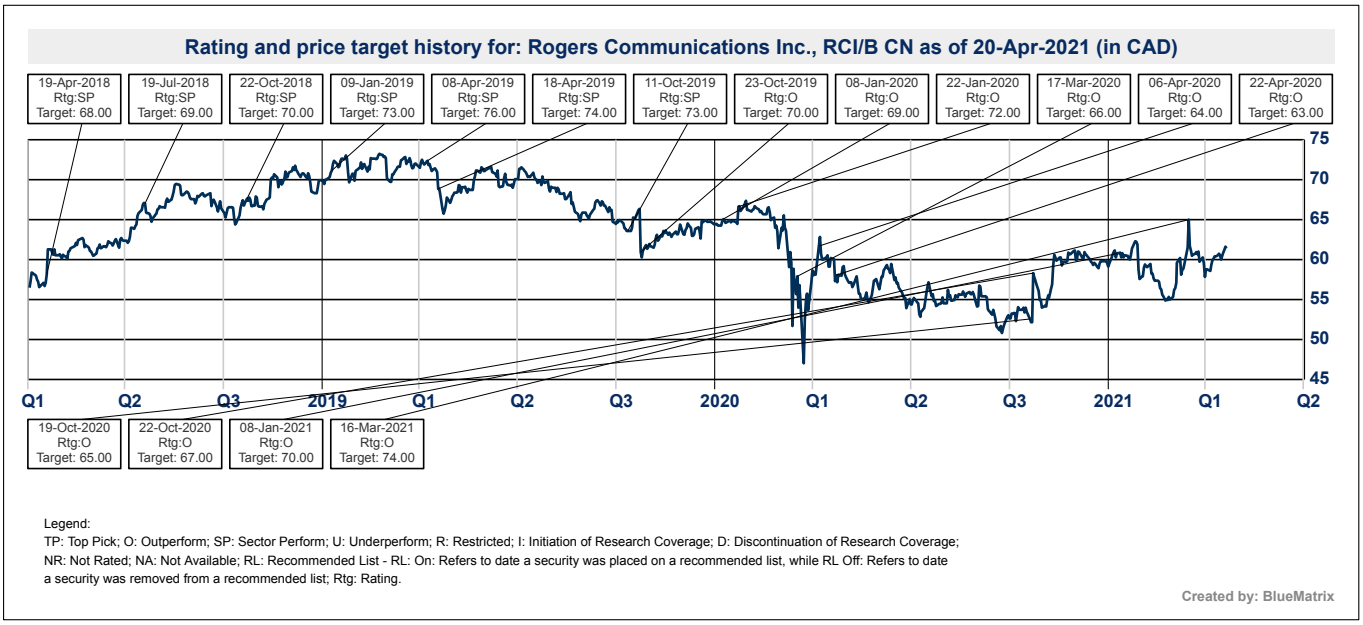
| HOLD [Sector Perform] | 559 | 40.68 | 179 | 32.02 |
| SELL [Underperform] | 53 | 3.86 | 4 | 7.55 |



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**Rogers Communications Inc.**

### Valuation

Our base case, one-year price target of $74 is based on the average of three approaches: (1) applying a 17.0x multiple to our blended two-year forward adjusted EPS estimates; (2) applying target EV/EBITDA multiples of 7.25x, 8.50x, 7.25x, and 7.00x to our blended two-year forward EBITDA estimates for Shaw and the Rogers Wireless, Cable and Media segments, respectively; and (3) discounted FCF through 2025E factoring in a WACC of 8.0% and terminal growth rate of 1.5%. We believe our target multiples are consistent with the growth and risk profile relative to peers, and a low interest rate environment. Our price target supports an Outperform rating.

### Risks to rating and price target

Risks to the shares reaching our one-year price target and rating are: (i) inability to receive necessary regulatory approvals for the acquisition of Shaw; (ii) unforeseen direct and indirect COVID-19 impacts; (iii) new wireless or wireline regulation that is detrimental to the incumbents; (iv) more intense IPTV and FTTH competition resulting in higher than expected cable subscriber losses; (v) the emergence of irrational pricing in the wireless, telephony, television, and/or Internet markets; and (vi) higher than expected consolidated capex intensity as 5G is deployed.

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