



Cogent Communications Holdings, (CCOI)

Updated May 13th, 2025 by Derek English

Key Metrics

Current Price:	\$51	5 Year Annual Expected Total Return:	14.2%	Market Cap:	\$2,41B
Fair Value Price:	\$50	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	05/22/25
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.2%	Dividend Payment Date:	06/06/25
Dividend Yield:	7.9%	5 Year Price Target	\$74	Years Of Dividend Growth:	12
Dividend Risk Score:	F	Sector:	Communication Services	Rating:	Hold

Overview & Current Events

Cogent Communications Holdings (CCOI) was founded in 1999 on the premise that bandwidth can be treated and sold like a commodity. The company offers low-cost, high-speed internet access and private network services to small to medium-sized businesses in 50 countries worldwide. At the end of 2021, Cogent's global network carried over 20% of all Internet traffic. Cogent offers high-speed internet access across two distinct customer bases, Corporate or "On Net," which generates 59% of revenues, and Netcentric or High bandwidth customers, which account for the remaining 41% of revenue. Cogent can offer on-net Internet access exclusively through its own facilities, eliminating the dependency on the local telephone and cable companies while offering speeds from as low as 100 Mbps to 400 Gbps. The company also serves Netcentric users or companies who like to deliver content to their customers, such as media service providers and web hosting companies. Netcentric users generally receive Cogent's services from neutral colocation facilities or Cogent's data centers, which operate throughout Europe and North America.

Cogent Communications Holdings released its Q1 2025 results on May 8th, 2025. Service revenue for the quarter was \$247.0 million, representing a 2.1% decline from Q4 2024 and a 7.2% decrease compared to Q1 2024. Foreign exchange headwinds accounted for \$0.5 million of the sequential decline. On-Net Revenue increased slightly to \$129.6 million, up 0.7% from Q4, but down 6.5% year-over-year. Off-Net Revenue came in at \$107.3 million, marking a 5.2% decrease from the prior quarter and a 9.2% decline from Q1 2024. The revenue decline mainly comes from the wind-down of temporary T-Mobile revenue, customer churn from the Sprint acquisition, and enterprise weakness. Wavelength service revenue continued its growth trajectory, rising 2.2% sequentially and 114.0% year-over-year to \$7.1 million. The company reported a net loss of \$1.09 per share for Q1 2025, wider than the \$0.91 loss in Q4 2024 and slightly improved from the \$1.38 loss in Q1 2024. Adjusted EBITDA rose to \$68.8 million, a 2.9% sequential increase, while adjusted EBITDA margin improved to 27.8% from 26.5% in the prior quarter. The company also raised its dividend for the 51st consecutive quarter to \$1.01 per share for Q2 2025 as compared to \$1.005 per share for Q1 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$0.11	\$0.33	\$0.13	\$0.63	\$0.82	\$0.14	\$1.04	\$0.11	\$26.88	(\$4.28)	\$0.42	\$0.62
DPS	\$1.34	\$1.51	\$1.80	\$2.12	\$2.44	\$2.78	\$3.17	\$3.55	\$3.76	\$3.92	\$4.04	\$5.67
Shares¹	45	45	45	46	46	47	47	47	47	47	46	46

Cogent's earnings per share have exhibited significant volatility over the past decade, ranging from as low as \$(4.28) in 2024 to as high as \$26.88 in 2023, largely influenced by one-time gains, income tax adjustments, and acquisition-related expenses. EPS spiked to \$23.65 in 2023 due to a gain on the bargain purchase from the Sprint acquisition. Factors such as integration costs, unrealized FX gains or losses on euro notes, and debt redemption expenses have contributed to the fluctuating nature of net income. Despite this volatility, Cogent has demonstrated consistent operational growth. Adjusted EBITDA reached \$348.4 million in 2024, reflecting stability despite short-term swings, while full-year service revenue grew 10.1% year-over-year to \$1.036 billion. Historically, the company has grown adjusted EBITDA at a compounded annual

¹ Share count is in millions.

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growth rate of approximately 9.2% since 2010, with revenue increasing at a 7.5% CAGR over the same period. Given the unpredictable nature of net income, projecting long-term growth remains challenging. However, based on historical trends and underlying business expansion, we anticipate revenue and EBITDA to grow at an average annual rate of approximately 8% through 2030.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	220.9	92.1	269.2	65.1	62.2	450.0	66.3	518.2	2.8	-18.0	121.4	120.0
Avg. Yld.	5.5%	5.0%	5.1%	5.2%	4.8%	4.4%	4.6%	6.2%	5.0%	5.1%	7.9%	7.7%

Valuing a company like Cogent can be tricky, as the earnings tend to fluctuate wildly. This has led the company to have some eye-watering P/E ratios, reaching a high of 1245 in 2014. The average P/E over the last ten years is 172. While challenging, we have a target P/E of 120, mainly due to our belief that the company will continue to increase its EPS and dividend. In addition, a 7.5% target dividend yield seems reasonable based on the historical yield the stock has offered. Currently, we view the company as fairly valued, and we have a five-year price target of \$74.

Safety, Quality, Competitive Advantage, & Recession Resiliency

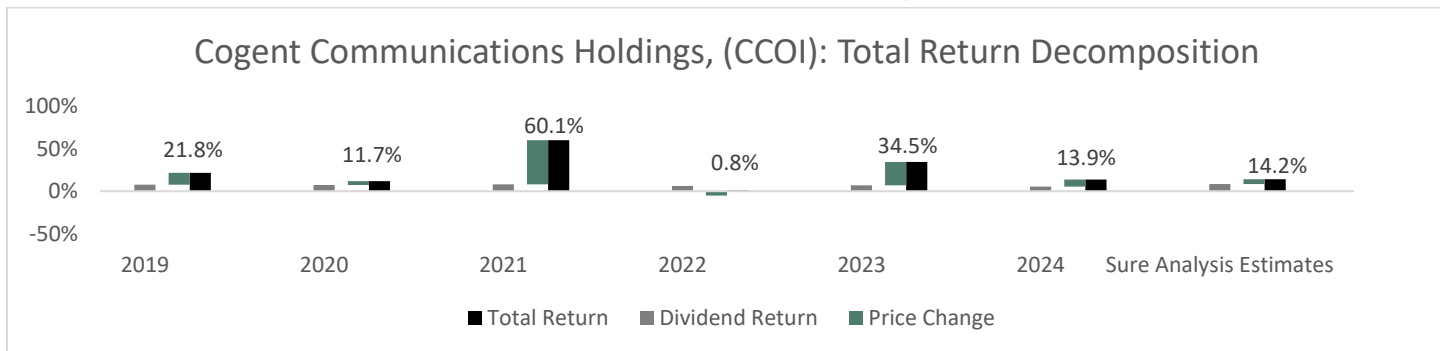
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	1218%	458%	1385%	337%	298%	1986%	305%	3227%	14%	-92%	400%	918%

Cogent has a transparent business model that targets the data communication needs of small to medium-sized businesses. Since the company was founded, it has been focused on delivering a narrow product set to its customers. A narrow product set can have significant cost advantages compared to a company like AT&T, which offers a broader product set to its customers. The company's transmission and network operations rely mainly on two sets of equipment, increasing control to give superior delivery. While they have over 25,000 corporate connections, this only accounts for a 5% market share, compared to the 95% market share they own with netcentric customers. This gives the customer plenty of scope to attract new customers. While their recession resiliency has not been tested in terms of dividends, it is encouraging that the company continued to increase its dividend every quarter throughout the COVID-19 pandemic.

Final Thoughts & Recommendation

Cogent's strength lies in its narrow focus on small to medium-sized businesses as it is a market leader within this niche due to their fast speeds and network reliability. In addition, the ability to keep costs low and not rely on third-party equipment to deliver its service is a huge plus. While the erratic nature of net income makes it hard to value this company, Cogent has consistently increased dividends and EBITDA. The only red flag for the rate of increasing dividends is the increasing debt load on the balance sheet. The payout ratio is also concerning. We estimate a total annual return of 14.2% through 2030. Shares earn a hold rating due to a poor dividend risk score.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	404	447	485	520	546	568	590	600	941	1,036
Gross Profit	230	253	276	301	326	349	363	371	397	394
Gross Margin	56.8%	56.6%	56.9%	57.8%	59.8%	61.4%	61.6%	61.8%	42.2%	38.0%
SG&A Exp.	113	121	128	134	147	158	162	163	275	276
D&A Exp.	71	75	76	81	80	83	89	92	232	298
Operating Profit	46	57	72	86	99	107	112	116	(111)	(180)
Operating Margin	11.4%	12.7%	14.9%	16.5%	18.2%	18.8%	19.0%	19.3%	(11.8%)	(17.4%)
Net Profit	5	15	6	29	38	6	48	5	1,273	(204)
Net Margin	1.2%	3.3%	1.2%	5.5%	6.9%	1.1%	8.2%	0.8%	135.3%	19.7%
Free Cash Flow	48	63	66	84	102	84	100	95	(112)	(203)
Income Tax	8	9	25	13	15	4	23	21	(54)	(56)

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	663	738	711	740	932	1,000	985	1010	3,212	3,173
Cash & Equivalents	204	274	247	276	399	371	320	224	75	198
Accounts Receivable	31	34	39	42	40	44	42	44	135	97
Inventories	675	791	813	889	1,136	1,294	1,358	1,529	2,602	
Goodwill & Int. Ass.	12	12	12	9	11	10	12	27	48	471
Total Liabilities	445	560	561	631	782	870	891	944	946	2,950
Accounts Payable	(12)	(53)	(103)	(149)	(204)	(293)	(373)	(518)	610	40
Long-Term Debt	(36.3)	(10.5)	(5.47)	(4.24)	(3.84)	(2.97)	(2.39)	(1.82)	1.55	1,439
Shareholder's Equity	(12)	(53)	(103)	(149)	(204)	(293)	(373)	(518)	610	223
D/E Ratio	(36.3)	(10.5)	(5.47)	(4.24)	(3.84)	(2.97)	(2.39)	(1.82)	1.55	6.46

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.7%	2.1%	0.8%	4.0%	4.5%	0.6%	4.9%	0.5%	60.3%	(6.4%)
Return on Equity	13.7%	---	---	---	---	---	---	---	2.80%	(49.0%)
ROIC	1.0%	3.2%	1.2%	6.1%	7.1%	1.1%	8.8%	1.1%	128.6	(12.7%)
Shares Out.	45	45	45	46	46	47	47	47	47.8	47.6
Revenue/Share	8.95	9.96	10.74	11.36	11.85	12.17	12.56	12.70	19.67	21.75
FCF/Share	1.07	1.40	1.46	1.83	2.21	1.81	2.14	2.01	(2.35)	(4.28)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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