Midday Recap: Telecom Earnings Reveal Ominous Warning

Description

Canadian equities traded higher on Tuesday amid strong U.S. economic data and a mixed bag of earnings from the Canadian telecom industry.

As of noon eastern time, the **S&P/TSX Composite Index** (^OSPTX) is was 46.48 points, or 0.34%, to 13,727. After a triple-digit sell off on Monday, the U.S. **Dow Jones Industrial Average** started to recover some of its losses. The broad-based index was trading up 75.26 points to 16,333.

Much of these gains can be credited to better than expected economic data. On Tuesday, the U.S. Commerce Department reported that retail sales increased 0.2% in December, higher than the 0.1% economists had expected. Excluding autos, U.S. retail sales rose an impressive 0.7% suggesting that the country's economic recovery is gaining momentum.

The biggest story north of the 49th parallel was a pair of earnings reports out of Canada's telecom sector.

Shaw Communications (TSX:SJR.A, TSX:SJR.B) beat Bay Street's expectations after reporting a third quarter profit of $245 million or $0.51 per share – up from $235 million or $0.50 per share from the previous year. However, Shaw shares fell 1.03% to $25.05 following the announcement as investors were concerned the programming costs and employee bonuses were eating into margins.

Cogeco Cable (TSX:CCA) also reported impressive results though the company failed to meet the street's expectations on both the bottom and top-line. The company saw its quarterly revenues spike to $475 million, up more than 45% year-over-year. Earnings per share also increased 17% to $1.01.

The fascinating trend out of these two reports: Canadians are ditching cable at a breath-taking pace. When you dig beneath the headline numbers, last quarter Shaw and Cogeco lost a remarkable 29,000 and 9,000 television subscribers respectively.

Where are these customers going? Shaw claims that customers are moving over to larger rivals like **BCE** and **Telus** who are slashing prices in order to win business. And there's certainly some truth to that.

But there's good reason to believe that today's data is more alarming. As telecom research firm Boon Dog highlighted in this report last year, Canadians are cutting their cable at record rates. During the second quarter alone, Canada's publicly-traded T.V. service providers lost an estimated 19,624 subscribers.

Canadian Publicly Traded TV Service Providers

Net TV Subscriber	**Net Q2 TV Subscriber Growth/Decline**
Rogers	(35,000)
Bell TV	24,605
Shaw	(26,578)
Vidéotron	(16,800)
Shaw Direct	(2,930)
Cogeco	(7,363)
TELUS	31,000
Bell Aliant	11,452
MTS	1,990
Total	**(19,624)**

Source: Boon Dog

And while we're still awaiting the final third quarter tally, today's data suggests that the pace of these losses is only accelerating. This is a big threat to a highly profitable segment of the Canadian telecom industry. If service providers can't find a way to plug this leak, more dollars are going to be sent to online upstarts like **Netflix**.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CCA (COGECO CABLE INC)
2. TSX:SJR.B (Shaw Communications)

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