Want Lower Wireless Rates? One of These Companies Could Make it Happen

Description

Almost every Canadian who owns a smartphone thinks they pay too much for wireless service.

As we become more addicted to our phones and having an internet connection wherever we go, this would appear to be good news for the entrenched national wireless operators — **Bell Canada** (TSX:BCE), **Rogers Communications** (TSX:RCI), and **Telus** (TSX:T). They have customers who are addicted to their products, and enjoy succulent profit margins. Until recently, the market has largely been devoid of competition. Fortunately for consumers, this looks likely to change.

It all started last summer, when U.S. telecom giant **Verizon** (NYSE:VZ) started openly considering an acquisition of one of Canada's smaller wireless startups, either Wind Mobile or Mobilicity. While there are foreign ownership regulations on Canadian telecom companies, the government recently lifted restrictions, paving the way for a foreign telco to acquire a wireless provider with less than 10% market share. The government also seems to be encouraging more competition in the market.

Verizon ultimately decided against a Canadian expansion, using its capital to buy out the large stake of its company owned by British telecom giant **Vodafone** (NASDAQ:VOD), but it's only a matter of time until real competition enters the market. Here are three possibilities.

1. Orange (NYSE:ORAN) is France's largest telecom provider, as well as having market share all over Europe, the Middle East, and Africa. The share price is trading near five-year lows, thanks to general European weakness and a price war with a competitor in France. A few months ago, Orange was rumored to be having discussions with Canadian regulators.

Orange is a cheap stock on all sorts of metrics. It trades for just a little over book value, has a dividend of 5.4%, and is currently using excess cash flow to pay down debt. It is getting rid of non-core assets, and has just recently rolled out a brand new 4G network across France, in hopes of easing revenue pressures in its home country.

2. Vodafone is a global wireless company with operations across the world including Australia, India, South Africa, and all across Europe. Flush with cash after Verizon paid more than U.S.$65 billion to rid itself of its minority shareholder, Vodafone is experienced in expanding internationally, so why not

Canada?

While the stock has gone up quite a bit since the Verizon deal, Vodafone still boasts a 5.7% dividend, exposure to high growth areas of the world, and a forward P/E ratio of less than 16x. While Canada would be small potatoes for such a large company, continued improvement in European economies should propel Vodafone higher.

3. Although only currently operating in La Belle province, **Quebecor** (TSX:QBR.B) has offered cellular service through its Videotron subsidiary since 2006. A bid for one of Canada's small wireless providers makes sense for the company if it wants to expand outside of Quebec, and there have been all sorts of rumors about its interest in Mobilicity.

Unlike the other two potential entrants into Canada, a national move by Quebecor has the potential to be a game-changing event for the company, and could represent huge upside. A successful bid will require the company to borrow a great deal of money to make the deal work, and leverage always adds risk. Quebecor could be the ultimate risk/reward stock.

Foolish bottom line

It's only a matter of time until legitimate competition enters the Canadian wireless market. While I don't think it'll be disastrous to the entrenched "big three", I struggle to see a scenario where they don't lose at least a little market share. There are too many Canadians who would be willing to give a true national competitor a shot.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:VOD (Vodafone Group Plc)
2. NYSE:ORAN (Orange)
3. TSX:BCE (BCE Inc.)
4. TSX:QBR.B (Quebecor Inc.)
5. TSX:RCI.B (Rogers Communications Inc.)

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