



## Who Will Win Over the Next 5 Years: Telus, BCE or Rogers?

### Description

The Canadian telecommunications market has three main players, **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)), **Telus** ([TSX:T](#))([NYSE:TU](#)) and **Rogers Communications** ([TSX:RCI.B](#))([NYSE:RCI](#)). They operate as a virtual oligopoly with the profit objective seemingly at least as important as market share.

Over the past five years, the clear winner was Telus with a total investment return of 197%, followed by BCE (150%) and Rogers(72%). The first two stocks also managed to beat the broad market index by a considerable margin.

The question now is who will win the race the race over the *next* five years? We consider a number of possible parameters in order to make a selection.

### Why did Telus and BCE leave Rogers behind?

This is not a simple question to answer. On the face of it, all three performed well over the past five years with comparable earnings and dividend per share growth.

However, Telus led the pack in terms of gross profit growth, mobile subscriber acquisition, average revenue per mobile user, free cash flow generation and customer satisfaction. BCE generated strong profit margins but the business performance was held back by the large but declining landline division.

Rogers did not fare badly but the important trends for new mobile subscriber acquisition and average revenue per subscriber started to deteriorate as far back as the third quarter of 2010. With the largest mobile subscriber base, it observed competitors starting to erode its highly profitable business.

### The business strategies are different...

Rogers and Bell have recently taken ownership of significant in-house broadcasting assets that can produce content across all technologies. Telus could find itself at a competitive disadvantage if it continues to refrain from acquiring media content. However, given the relative modest profits generated from these assets, the Telus strategy may eventually turn out to be the prudent approach.

## A new CEO for Rogers

Recent experience at **Canadian Pacific Railways** ([TSX:CP](#))([NYSE:CP](#)) again demonstrated the huge influence that a new CEO can have on the performance of a business. Only time will tell whether Mr Guy Lawrence (formerly of Vodafone UK), who joined Rogers in December 2013, will have a similar influence.

The Telus executive team is well entrenched under the leadership of Mr Darren Entwistle, who took over in July 2000, and the BCE team is settled under CEO Mr George Cope.

## A strong balance sheet is required

In the telecommunication sector, scale and network infrastructure play an important role. It is therefore paramount for these companies not only to be able to afford the operating licences but also to be able to exploit the license fully. Neither of these can be done without a considerable balance sheet.

Rogers currently has the most leveraged balance sheet and with the recent \$3.3 billion acquisition of 700 MHz spectrum, the already high debt levels will balloon. Should interest rates continue to rise, its current low cost of finance will increase considerably.

Both Telus and BCE have more moderately leverage balance sheets and the acquisition cost of additional 700 MHz spectrum was also considerably lower at \$800 million and \$500 million respectively.

## Dividends will remain important

These are mature companies that generate significant free cash flow and have excellent track records of growing dividend payments over time. Barring serious business problems, this pattern should continue contributing strongly to the total investment return.

I rate BCE number one in this regard with a higher starting yield followed by Telus but am concerned that the high debt levels in Rogers may eventually impact their ability to grow dividends.

## Foolish bottom line

All three the telecommunications markets leaders in Canada are highly profitable businesses. However, given the strong management team, superior balance sheet, prudent capital allocation, reasonable valuation and positive growth momentum, I consider Telus as the favourite to win the race again over the next five years.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:TU (TELUS)
4. TSX:BCE (BCE Inc.)

5. TSX:RCI.B (Rogers Communications Inc.)
6. TSX:T (TELUS)

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