Why Did Telus Shut Down Public Mobile?

Description

Late last week, **Telus** (TSX: T)(NYSE: TU) announced it would be shutting down Pubic Mobile's cellphone network after acquiring the company late last year. The move means more than 260,000 subscribers will be migrated over to Telus's 4G network by about mid-August. They will have to upgrade their phones, but Telus has offered some small discounts to help its new customers with the migration.

Telus's announcement certainly caused some controversy. Public Moible's customers are generally lower-income, and chose the company for its cheaper talk-and-text plans. They likely would have chosen another provider if they wanted a higher-quality phone and more powerful network. Canadian Industry Minister James Moore even said that it "seems like an odd business decision to alienate thousands of Public Mobile users as you absorb Public Mobile itself."

But in the end, it wasn't much of a surprise. Public Mobile's network is generally viewed as outdated, and the company's spectrum isn't used for the latest smartphones. This is precisely why the merger was approved in the first place. And Telus did not buy Public Mobile for its subscriber base. Public Mobile's limited spectrum will give a small boost to Telus's 4G network, and Telus will also get a financial benefit from Publc Mobile's tax losses.

So what does this mean for the industry?

On the surface, it looks like Telus's goal all along was to eliminate a competitor, and it has succeeded in doing that. So this can only be seen as a positive for Telus's large rivals, **BCE Inc** (TSX: BCE)(NYSE: BCE) and **Rogers Communications** (TSX: RCI.B)(NYSE: RCI).

And the events are yet another sign that the wireless upstart experiment has been a failure. The other two small competitors, Wind and Mobilicity, are struggling to find a buyer. None of the upstarts has made a serious dent in the market share of the big three. Consumers who want a fast, powerful, modern network, still have limited options. This is a good news for the wireless giants and their investors.

Darker clouds long-term

Even though this is a net positive, the telcos should have concerns about their long-term profitability. James Moore's suspicions are shared by many Canadians, who have grown tired of paying high wireless bills. As time goes by, politicians are being put under ever-increasing pressure to reign in the telcos' excesses. And now that Telus is shutting down Public Mobile, that pressure can only increase.

Foolish bottom line

Telus did not teach us anything new last week. It is clear to everyone involved that the big three dominate Canada's airwaves, and that will not change anytime soon. At the same time, future actions by the Canadian government can put a damper on the profitability of these three companies.

The telcos remain good options for dividend-focused investors. But that could change before long.

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)

Category

1. Investing

Date
2025/07/27
Date Created
2014/03/31
Author
bensinclair