



The ABCs of BCE's Renewed Focus on Bell Media

Description

There was a time when **BCE** ([TSX: BCE](#))([NYSE: BCE](#)) was just known as Bell, the cell phone carrier. Oh how things have changed. As the wireless market matured, BCE began looking elsewhere for revenues. What was once a risky venture, the Bell Media division has quickly grown into a national force comprised of CTV, CTV 2, 35 specialty channels, and four premium subscription channels.

Now BCE is making a new investment into its sports broadcasting portfolio, its best bet against cord-cutters, DVRs, and online streaming. Sports still maintains its aura of “watch it live” and could be the best bet in maintaining the revenues of BCE’s media experiment, which skyrocketed by 40% last quarter.

Sports — a guiding light in an age of streaming

Following in the footsteps of ESPN, Bell Media-owned TSN announced that it would be expanding from two sports channels to five to maximise its coverage of a plethora of non-NHL sporting events and leagues.

While TSN retains regional rights to Leafs, Senators, and Jets games, the loss of the national rights hurt. TSN still retains the rights to the CFL, Whitecaps MLS soccer, tennis, NFL, and the NBA among others. This expansion will give the network the ability to not have to make difficult decisions when multiple events compete with each other.

The president of TSN spoke of the potential of the added channels on Vancouver sports radio earlier this week, and used tennis as an example. Under the new structure, TSN would be able to carry four separate Wimbledon matches simultaneously. It is good to see a telecom company taking the government’s “More Choice” mandated to heart. The president also hopes that this new multichannel simulcast would dramatically reduce the amount of viewer complaints.

Another example given was the IIHF hockey tournament. Currently TSN is able to broadcast 18 games; under the new expansion that number will climb to all 64 games of the tournament.

More than just a game

Broadcasting sports is a big business for BCE as TSN was the highest grossing specialty channel in 2013. While Bell Media has a large selection of specialty channels such as BNN, Space, and The Movie Network, sports is one of its best performing segments.

So then how does Bell Media as a whole compare against its telecom competitors **Rogers** ([TSX: RCI.B](#)) ([NYSE: RCI](#)), **Shaw Communications** ([TSX: SJR.B](#)) ([NYSE: SJR](#)), and media standalone **Corus Entertainment** ([TSX: CJR.B](#))? Let's take a look at the top three performing (pre-tax) specialty channels per company.

- **BCE:** TSN: \$102 million; Comedy Network: \$31.3 million; Discovery: \$23.8 million
- **Rogers:** Sportsnet: \$56.8 million; Sportsnet One: \$34.7 million; Outdoor Life: \$8.7 million
- **Shaw:** HGTV: \$42.8 million; Food Network: \$35.3 million; Showcase: \$34.7 million
- **Corus:** YTV: \$44.1 million; W Network: \$39 million; Teletoon: \$37 million,

Don't touch that dial

These high numbers for Bell Media's specialty channels earned the division \$722 million in the quarter, an increase of 40% over last year's quarter. The division was also helped by higher advertising revenues, new mobile content deals, and the Astral acquisition.

Total revenues for BCE in Q1 climbed to \$5.09 billion from \$4.91 billion last year; while this was a modest gain, it fell below analyst predictions of \$5.12 billion. Adjusted net earnings also had a small increase to \$626 million (\$0.81 per share) from \$599 million (\$0.77) in Q1 2013, beating out analyst expectations of \$0.76 earnings per share.

Since the Rogers NHL announcement, investors have been waiting to see how BCE would respond to this opening salvo. While adding channels may not be as big a story as the NHL, it does open up some interesting questions surrounding advertising revenues. Does this give TSN and Bell Media the ability to multiply its price tag on events such as Wimbledon and IIHF hockey now that viewers will have the choice between up to five specific games within the same event?

Another advertising nugget that came out of the interview with the president of TSN is that the network will be filling its daytime (non-live event) programming block with video feeds from Bell Media's allotment of sports radio stations. This gives the company the ability to double-down on advertising revenues for its radio broadcasts. The stock closed Friday at \$49.01, just shy of its 52-week high \$49.25 it hit on Thursday, and currently has a price target of \$48.00.

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