3 Things That Could Spell Disaster for Canada's Telecoms

Description

Many investors hold shares in at least one of Canada's top three telecom companies — **BCE** (TSX: BCE)(NYSE: BCE), **Telus** (TSX: T)(NYSE: TU), and **Rogers Communications** (TSX: RCI.B)(NYSE: RCI). These companies are world-class businesses with significant moats protecting them from upstart competition. They're diversified into many similar businesses, with each having wireless, television, home phone, and internet divisions.

For most investors, shares in these three companies have been some of the best performers in their portfolios. Not only has each company nicely grown its share price, but investors have also been treated to dividend increases that rank among the best on the TSX.

The future looks bright, too. Although customers are cutting cable at an alarming pace, these companies have been able to push through price increases to existing customers to help mitigate losses. Canadians are increasingly addicted to their smartphones, and don't seem to mind the higher wireless bills that come with them. The internet is on par with lights and heat for most consumers. We just can't live without it, especially those who have already cut the cord on cable.

And yet, I don't think the Canadian telecoms are as bulletproof as investors think. Here are three reasons why.

1. Internet risk

Earlier this week, **Google** announced plans to invest more than $1 billion in a network of 180 satellites, which would enable people in previously inaccessible areas to access the internet. If the project manages to reach its ambitious potential, these satellites could provide internet access to consumers anywhere in the world, including Canadian cities.

This isn't the first time Google has ventured into the world of internet access. Through its Fiber program, it offers ultra-high-speed internet service to customers in cities such as Kansas City and Austin, Texas, for $70 per month. Or, for just a $300 one-time fee, the company will guarantee a customer free basic internet for seven years. Oh, and for an additional $50 per month, customers can get access to television service with 150 high definition channels.

Google's Fiber program has proven immensely popular. The company is planning similar projects in many more U.S. cities, including Phoenix, Salt Lake City, and Atlanta. It would not be good for Canadian telecoms if the program ever extended into Canada.

2. Wireless risk

During the summer of 2013, shares in all three Canadian telecom companies fell sharply as rumours swirled about U.S. wireless giant **Verizon** entering Canada. Although Verizon ultimately decided to go in a different direction, the aborted attempt still showed just how nervous investors get from just a potential entrant into the market.

It's only a matter of time until a foreign competitor enters Canada. The Canadian government is practically begging for more competition, even going as far as taking out ads bashing the incumbent operators. Telus has tried to buy struggling carrier Mobilicity three times, and has gotten rejected by the feds each time. It's almost as if the government is reserving Mobilicity for a foreign competitor.

When a new competitor finally enters, look for shares in the incumbent operators to fall 15%-20%, just like they did when Verizon's presence was rumoured.

3. Television risk

Personally, there's only one thing that keeps me subscribed to cable: sports.

If a sports watcher really wanted to, they could easily cut cable and just watch each professional league's deluxe package that gives viewers access to every game. Since that can become more expensive than cable pretty easily, it looks like people like me will continue to subscribe to television services.

But what if a robust internet service for sports eventually comes out? I know many sports fans that would gladly shell out $20 or $30 a month for access to the entire sports universe. Leagues could package this up as a premium service, splitting the profits based on viewership. Each league could sell commercials directly, further increasing revenue from the service.

There are start-ups that are currently trying to make this very model work. Investors may scoff at the viability of the business plan, but a lot can happen in a short period of time with technology.

At this point, things are still looking good for Canada's telecom providers. But technology could very easily change the game, and could do so quickly. Investors need to keep an eye on these upcoming trends.

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