



Could This Company Become Canada's Fourth Wireless Player?

Description

When **Verizon** was rumoured to be interested in becoming Canada's fourth wireless carrier back in mid-2013, investors could practically hear the federal government's squeals of delight. The government has long wanted a legitimate fourth carrier, and seemed to be doing all but rolling out the red carpet in order to make it happen.

Verizon took a look at both Mobilicity and Wind Mobile, the weakest of Canada's wireless companies. Ultimately, the company decided to decline, and spent its capital buying out its largest minority partner, **Vodafone**. Once again, another competitor decided to not spar with Canada's incumbents.

Since then, there have been some interesting developments in the sector. In February, **Rogers Communications** ([TSX: RCI.B](#))([NYSE: RCI](#)) spent more than \$3 billion acquiring some wireless spectrum, surpassing both **BCE** ([TSX: BCE](#))([NYSE: BCE](#)) and **Telus** ([TSX: T](#))([NYSE: TU](#)), who spent less than \$2 billion between the two of them. On first glance, the so-called "big three" cleaned up in the auction, yet again.

However, once you look past the headline numbers, a number of small purchases by **Quebecor's** ([TSX: QBR.B](#)) Videotron unit should catch your eye. The company paid just \$233 million for licenses that cover most of Quebec, Ontario, Alberta, and B.C. At the time, Quebecor's CEO said "[Quebecor] could not pass up the opportunity to invest in licences of such great intrinsic value in the rest of Canada."

Suddenly, a fourth player seems ready to take on the incumbents in some of Canada's largest markets. The four provinces that Quebecor has targeted contain 80% of Canada's population, which could mean the company could start to offer legitimate competition for a lot of Canadian consumers.

Unfortunately, the future isn't quite that bright. Videotron has offered wireless service in Quebec since 2010, and has signed on only 500,000 customers, good for about 10% of the market. Since the company is so entrenched in Quebec, it has been able to leverage its brand name and use bundling discounts to entice sign-ups.

Looking at it from a pessimistic angle, Videotron has only been able to capture 10% of the market in its

own province, where it's a media giant. That's not exactly encouraging for when it ventures into markets where it doesn't have consumer recognition. Also, Quebecor has spent more than \$1 billion on its wireless division since 2010, and is still losing money on it.

Analysts estimate it would cost the company another \$1 billion just to build an LTE network across the country, and that's not including the retail locations it would have to open as well. Considering that the company is already sitting on \$5.3 billion worth of debt — compared to a market cap of just \$3.3 billion — it's easy to paint a pessimistic picture. If Quebecor does launch outside Quebec, it's bound to do so slowly.

Perhaps Quebecor is just speculating in spectrum, with the intent to sell it all to a foreign competitor at some point in the future. Maybe it intends to sell some of its media assets to really make a run at establishing a true nationwide fourth carrier. At this point, though, I'd say consumers who are looking for an option besides the big three are out of luck. Quebecor just doesn't have the means to go all in.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BCE (BCE Inc.)
2. TSX:QBR.B (Quebecor Inc.)
3. TSX:RCI.B (Rogers Communications Inc.)
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Author

nelsonpsmith

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