



Will We Finally Get a Fourth National Wireless Carrier? What Investors Need to Know

Description

The 2014 Canadian Telecom Summit just wrapped up in Toronto. Montreal-based **Quebecor** ([TSX: QBR.B](#)), through its subsidiary Videotron, suggested at the conference that it wants to be the fourth national wireless carrier.

In the most recent 700MHz auction, Videotron won seven licenses including Eastern Quebec, Southern Quebec, Northern Quebec, Eastern Ontario, Southern Ontario, Alberta, and British Columbia. Assuming Videotron can acquire the cheaper roaming rates that will allow it to offer its customers national coverage, what are the implications for the existing national carriers, **Rogers** ([TSX: RCI.B](#))([NYSE: RCI](#)), **Bell** ([TSX: BCE](#))([NYSE: BCE](#)), and **Telus** ([TSX: T](#))([NYSE: TU](#))?

1. Lower wireless pricing: Scalability is key. From the outset, it is likely that Videotron will aggressively pursue customers through lower pricing because it wants to quickly load customers on to its network in the race to achieve critical mass. A strategic acquisition of either Wind Mobile (735,000 subscribers) or Mobilicity (175,000 subscribers), or even both by Videotron may be sensible, as it would provide it with a foothold outside of Québec.

2. Aggressive price matching: Rogers, Bell, and Telus will not go down without a fight. Expect the big three to match Videotron on wireless pricing to protect their respective market shares, creating a price-parity environment.

3. Accelerate network development: You can expect that not only will the incumbents match pricing, but they will also try to use their size by accelerating network developments. For 2013, the existing major players spent approximately 18%-19% of their revenue on capital expenditures, significantly higher than the 15% Quebecor spent in 2013. It will be difficult for Videotron to try to match the major players dollar for dollar. The incumbents will do what they can to exploit this competitive advantage.

4. Accelerate product development: It is not just about the wireless universe. Expect the incumbents to accelerate new product development such as the rumoured **Netflix** clone from Rogers. This is necessary as telecom companies continue to attempt to create a “captive audience ecosystem” for

customers, taking a page from **Apple's** playbook. Expect new products to provide either new revenue streams and/or be sold at breakeven prices to enhance customer experience and reduce subscriber churn.

5. More quad service bundles: It is about the entire landline, wireless, TV, and Internet universe. Expect incumbents to set pricing strategies based on all the products and services customers have in aggregate, rather than any one product or service.

6. Lower household churn: As a result of lower wireless pricing and new product innovation, expect household churn to be reduced in the long run, resulting in sustained profitability.

Ultimately, expect Videotron's ambition to act as a catalyst for accelerated network and product investment for the incumbents. While this may cause volatility for investors in the short term, there may be value to be found in the near term as uncertainty takes hold.

CATEGORY

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