What Investors Need to Know About the Upcoming Wireless Spectrum Auction

Description

In a surprising development, the government of Canada announced plans to release an additional wireless spectrum — the AWS-3 band — that is geared specifically toward fostering more wireless competition. Not only is 60% of the spectrum set aside for anybody *except* **Rogers** (TSX: RCI.B)(NYSE: RCI), **BCE** (TSX: BCE)(NYSE: BCE), or **Telus** (TSX: T)(NYSE: TU), but it's also combined with strict spectrum transfer rules and a shorter auction, as the government is determined to entice a new national wireless player to emerge.

What do investors need to know?

Competition has an impact

With the formation of Wind Mobile in 2009, Rogers' post-paid wireless average revenue per user, or ARPU, has declined at a compound annual decline rate of 2.16%, from $73.93 in 2009 to $67.76 in 2013. During the same time, the number of post-paid subscribers increased 3.71%, implying that while ARPU is declining, a growing pie has allowed the industry to continue to flourish.

Wireless growth is slowing

Although subscriber growth has been able to outpace ARPU decline, the gap is closing. In 2013, while Rogers' post-paid ARPU declined 2.22% from $69.30 to $67.76, post-paid subscriber growth increased only 2.91% year over year, significantly below prior years.

A longer lens is warranted

For investors fearful of the future of telecommunications, a longer lens is warranted. In 2006, Rogers' post-paid ARPU was $67.27, even lower than compared to now. The ARPU jumped significantly in 2007 to $72.21, due to the arrival of the iPhone, significantly increasing data usage costs for subscribers.

After years of changing industry dynamics, including increased competition, the industry's three main players — Rogers, BCE, and Telus — remained dominant as market share stayed relatively flat.

Investors may expect the establishment of a fourth national wireless carrier to continue to drive post-paid ARPU lower, but eventually the ARPU will stabilize and, in the long run, grow again based on data consumption.

Hunger for data

The next major area of growth for the telecom industry will be machine-to-machine communication with in-car connectivity being the first wave. Already, companies such as **Apple** and **Google** are creating solutions designed to transform the in-car experience. Investors may expect telecom companies to be on the vanguard of monetizing data consumption.

Ultimately, investors may expect short-term bumps in telecom stocks as the market becomes fearful of another national carrier. However, over the long run, as Silicon Valley continues to develop new products and experiences that could lead to greater data consumption, expect the telecom industry to remain profitable. Near-term decline driven by government intervention may be an opportunity for investors to pick up shares on the cheap.

CATEGORY

1. Investing

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2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:TU (TELUS)
4. TSX:BCE (BCE Inc.)
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