



Is the Wireless Sector as Strong as We Think?

Description

It's such a common piece of advice that it's almost a cliché at this point, but it's so true. Investors should invest in companies that have a sustainable competitive advantage, also called a moat. It might be the most important piece of wisdom billionaire Warren Buffett has shared with investors.

In Canada, one of the sectors with the strongest perceived moat is the telecom industry, particularly wireless. **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)), **Rogers Communications Inc.** ([TSX:RCI.B](#))([NYSE:RCI](#)), and **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)) have collectively invested billions building a network that gives almost every Canadian access to fast and reliable wireless service.

We're also increasingly addicted to our smartphones. All you need to do is go out in public to witness that. People everywhere are constantly stealing a glance at their iPhones and Android devices, even going as far as ignoring their friends when out together. I once quipped to a friend, "I don't know how I was ever bored without a smartphone."

Canada's wireless industry is perhaps the strongest in the world. Thanks to government restrictions on ownership, a small population spread out over a huge country, and the oligarchy-type of environment enjoyed by the incumbents, there doesn't seem to be too much of a risk to the industry. **Verizon** famously pondered entry into Canada back in 2013 before wisely choosing to spend its capital elsewhere. In fact, no company even looks poised to enter the Canadian market, even though the federal government has all but rolled out the welcome mat to attract somebody to compete with the "big three."

But what if I told you that already-existing technology is poised to maybe not knock down the big three, but at least annoy them a little bit? And what if I told you that technology was something as innocent as WiFi?

The threat

It goes a little something like this. There are dozens of apps that allow you to call your friends, family, or anyone else for free, providing you're both using the same app. **Facebook** gives you the ability to call your friends. Skype has been around for more than a decade. **BlackBerry** users can call each

other for free using BlackBerry Messenger. There's no shortage of ways to communicate with each other.

There are essentially two reasons why we don't all give up our phone numbers and stick with this kind of communication. First, tradition dictates that we pick up the phone and call somebody if we'd like to communicate with them, especially in a professional setting. And second, we don't want to miss a call. Having a phone ensures we can be reached wherever we might be. So, even though the majority of us spend 90% of our time at work and at home—places where we have WiFi—we still make sure we have a phone number on the off chance someone wants to talk to us on our commute home.

This is where improved WiFi comes into the picture. Imagine living in a world where you can access your internet connection wherever you are using secure WiFi as an add-on package from your internet provider. Suddenly, you're no longer chained to a wireless carrier for a voice plan; you can do everything over data that's practically free.

Considering how little I talk on the phone, if WiFi was more readily available, I'd consider dropping my voice plan. I bet there are thousands more just like me.

One nation where this is already happening is South Korea. Like Canada, South Korea has three main incumbent telecom providers, and has the majority of its population in large centres. The difference is the number of WiFi hotspots in South Korea, which are everywhere, including on subways and buses, and the ease of getting a plan that only covers data for about \$10-20 per month.

This won't cripple the incumbent carriers by any means. But considering this upcoming risk, investors may look at today's elevated valuations for Canada's wireless giants and perhaps reconsider whether they're worth 18-20 times earnings.

CATEGORY

1. Investing

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