Will Telus Corporation Suffer From Increased Competition?

Description

In a surprising move, **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) announced a $1.6 billion acquisition of Wind Mobile in mid-December. The acquisition could have some big effects on Canada's wireless industry.

default watermark

So what exactly does this mean for Canada's Big Three telecom firms? Are we headed towards greater competition and lower prices? And more specifically, how will this affect **Telus Corporation** (TSX:T)(NYSE:TU)?

The rationale for the acquisition

Wind expects to generate $65 million in earnings before interest, taxes, depreciation, and amortization (EBITDA) this year. So Shaw paid nearly 25 times EBITDA, which at first seems very expensive. But there are some good reasons why Shaw paid so much.

Most importantly, Shaw wants to bundle its cable and Internet offerings with Wind's wireless business. This will allow Shaw to offer the full suite of telecommunications services, making the company a much stronger competitor to companies like Telus. As a bonus, Shaw gets to give Telus a taste of its own medicine, after Telus entered the Internet and IPTV markets in western Canada.

Will wireless competition heat up?

At first glance, there are reasons to believe that wireless competition won't be so fierce–this would be good news for Telus and bad news for Canadian consumers. Shaw's CEO indicated as much: "I see pricing somewhat discounted, but probably closer to the incumbents as we go forward." Just look at the Canadian banking sector, which features six national players, each of which make very healthy profits.

Yet there is reason to believe wireless pricing will come down. Many markets in Europe feature four major players, and they offer far cheaper plans than the Canadian market does. Furthermore, provinces with another big player (for example, SaskTel in Saskatchewan) also feature lower prices. This would be great news for your cellphone bill, but bad news for Telus shareholders.

How should shareholders react?

If you own Telus shares, it's probably too late to sell. The stock has already declined by more than 10% over the last two months, and the dividend now yields a healthy 4.5%. And Telus doesn't even pay out all of its earnings to shareholders. This gives the company some nice breathing room and means that a dividend cut is very unlikely.

To be sure, these new developments will take a small bite out of Telus's profitability. But this is still a very solid company, and it features one of the best dividends that $39 can buy.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:SJR (Shaw Communications Inc.)
2. NYSE:TU (TELUS)
3. TSX:SJR.B (Shaw Communications)
4. TSX:T (TELUS)

default watermark

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/21
Date Created
2015/12/29
Author
bensinclair

default watermark