How Canada's Largest Telecoms Monetized a 44% Increase in Mobile Data Usage

Description

The Canadian Radio-Television and Telecommunications Commission (CRTC) released its Communications Monitoring Report for 2016, which outlines the key trends in the sector. The results were pretty anticlimactic when determining the market share of the five largest telecom companies in Canada. Their percentage share of wireless subscribers was unchanged at 90%, including their share of revenues, which also remained at 92%.

What was noticeable was the 44% increase in mobile data usage by Canadians in 2015. The average monthly data usage per subscriber increased by 33% from the previous year. The average Canadian consumer is now using in excess of 1.3 gigabytes (GB), or more than the basic $25 per month for one GB of data.

Why is this important to consumers and investors?

For Canada's telecommunications companies, this is significant trend; their wireless revenues continue to grow and outpace the majority of their other services. The wireless service market sector is now the largest retail telecommunications service sector; it has grown more than any other sector since 2008. The following chart highlights a few metrics from the CRTC's report.

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Wireless services grew by almost 8% in 2015 and now represents 51% of all telecommunications revenues. It's important to note that wireless revenues have the highest EBITDA margin of all other services at 40%.

An improvement in mobile applications and technologies continues to shift computing habits toward mobile devices. Users have also become less elastic to the increasing prices as the average monthly fee grew by over 5% in 2015 to $64 per month.

What did remain unchanged in the report was the dominance of **Telus Corporation** (TSX:T)(NYSE:TU), **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI), and **BCE Inc.** (TSX:BCE)(NYSE:BCE) in the industry. The market share of the five largest firms remained at 90% and accounted for 92% of total revenues.

There still is some uncertainty, as the CRTC has started to crack down on the noncompetitive nature of the market. Lately, the cable and internet service providers (ISP) have seen the brunt of this legislation. Earlier this month, the CRTC ordered the major ISPs to reduce the prices they charge to retail competitors who buy space on their networks. As of now, the wireline service industry seems to be the target, but the wireless sector could be next.

Why Telus?

Of the three telecommunications companies, Telus has the largest portion of its revenues coming from one province. In 2015 it generated 53% of its revenues in the province of Alberta. Considering the economic conditions over the last two years in Alberta, it has increased in dividend by almost 30%, and the stock has gained about 20%.

One factor to consider is that Alberta has the highest wireless service revenues per subscriber at $76.48, or 10% higher than the next highest province, which is Newfoundland and Labrador. These numbers do exclude the northern provinces.

If your concerned about consumer retention, Telus has the lowest churn rate of Bell Mobility and Rogers Communications. The churn rate is the amount of customers or subscribers that cut ties with your service or company during a given time period. Telus had an annual churn rate of 1.3 times versus 1.5 and 1.6, respectively, for Bell and Rogers.

Rogers released positive earnings this week in large part due to strong wireless service revenue growth of 6% year over year. It’s expected that Telus will report similar results bolstered by its wireless growth and improvement in the economic landscape of some of its key markets.

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