# Will This Demographic Trend Save the Cable TV Sector?

## Description

The big story about Canada's largest telecoms continues to be that customers are cutting the cord and choosing a life without cable TV.

Anyone needing proof can just take a look at **Shaw Communications Inc.'s** (TSX:SJR.B)(NYSE:SJR) annual results for its fiscal 2016, which ended August 31. At the beginning of fiscal 2016, Shaw had nearly 2.6 million cable and satellite TV customers. By the end of the year, that number was comfortably under 2.5 million. It lost a total of 114,878 television customers.



Shaw was the biggest loser, but it was hardly alone in feeling this pain. According to recent analyst reports, Canada's five largest telecoms are on pace to lose more than 200,000 subscribers in 2016 (final numbers aren't out yet) with similar losses expected for 2017.

And that is despite companies like **Telus Corporation** doing a nice job of growing their subscriber numbers, albeit from a much smaller base.

And remember, it isn't just cable that's suffering. Canadians are dropping their home phones at an even faster rate than cable. In 2016, just under 7% of Shaw's landline customers said "adios" to their service, choosing instead to just use their wireless device.

Even though Shaw has done a nice job mitigating this issue by passing through price hikes to existing customers and acquiring Wind Mobile to give it a foothold in wireless, investors have to be alarmed at the trend. Cable has terrific operating margins of close to 40%. Wind's operating margins are about half that.

Fortunately for Shaw, there may be some relief on the horizon in the form of millennials getting married and having families.

**Why this matters**

I've watched many of my fellow millennial friends get married and start their own families. Suddenly, we no longer hang out in restaurants, pubs, or at sporting events. These friends now invite me over to their place for dinner, board games, or watching the big game on television.

These friends always have cable. Always.

It’s easy to see why. It might not be good parenting to plop your kids in front of the TV, but every parent does it. Getting a babysitter is expensive, so television becomes an excuse to socialize with other adults without having to leave the house.

Parents also need entertainment for when the kids go to bed. Cable TV is cheap enough to be affordable, yet doesn’t require much mental energy. It’s the perfect thing to do to unwind after a tough day.

As millennials continue to age and have children, many of them will buck the trend and get cable. It’s just too convenient. Will it be enough to matter? I sure think so.

There are 9.5 million millennials in Canada — approximately the same number as baby boomers. Yet they only make up 19% of households (as of 2015) versus 38% for baby boomers. Remember, a lot of millennials are still living in their parents’ basement. Only 21% of millennials have children, and 30% of baby boomers still have children living with them.



In 2015, there were 2.8 million millennial households in Canada. By 2025, that number is expected to almost double to 5.5 million. That is huge potential growth that nobody talks about.

**The bottom line**

The trend is obvious. Millennials will spend the next decade moving out of their parents’ basement, getting married, and starting families of their own. It’s going to happen in a big way.

And when it does, many will decide they want to subscribe to cable. Maybe there won’t be enough to reverse the trends we’ve seen over the last few years, but there will certainly be enough to slow what we’re seeing today.

And even if these folks don’t buy cable, it’s easy to see them spending big money on internet that’s fast enough to play video from multiple devices at once.

Ultimately, it’s good news for Shaw Communications — a company many investors are avoiding for this very reason.

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**Date**
2025/09/08
**Date Created**
2017/01/04
**Author**
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