



Telus Corporation and Rogers Communications Inc. Are Feeling the Pressure: Time to Sell?

Description

Long-time market darlings **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)) and **Rogers Communications Inc.** ([TSX:RCI.B](#))([NYSE:RCI](#)) have been feeling the pressure from Freedom Mobile, the wireless carrier owned by **Shaw Communications Inc.** ([TSX:SJR.B](#))([NYSE:SJR](#)).

The threat of Freedom Mobile is real for the Big Three

Shaw has been aggressively investing to improve its wireless infrastructure to close the network quality gap between it and the Big Three incumbents. Telus and Rogers have taken notice, and they have both responded by ramping up wireless promotions to retain customers who may be headed for the better wireless rates over at Freedom Mobile once their contracts expire.

Freedom Mobile is a serious threat to the Big Three wireless providers, and we can expect competition to pick up in the coming months as Freedom Mobile gives Canadian wireless users more reasons to switch.

Canadians pay ridiculously high wireless fees, but this is set to change as Freedom Mobile finds the balance between reliability and affordability. Freedom currently offers lower prices than its Big Three peers, but the network isn't at the same level quite yet, but this may soon change in the years ahead.

Fighting Freedom with promotions

Rogers is actively trying to stop customers from leaving its Fido brand for Freedom Mobile by offering a 4GB of data for \$45/month. Telus is also offering a similar data promotion to prevent customers from leaving for Freedom.

These promotions are preventing Freedom Mobile from gaining a huge number of wireless subscribers now, but I do not believe this will last long, since we'll probably reach a point where the Big Three incumbents may have to sacrifice too much to keep subscribers from switching to Freedom Mobile's cheaper plans.

The Big Three telecoms are going to be forced to play Freedom Mobile's game by reducing costs or providing more perks over the long term. I believe this will result in slower growth expectations for all of the Big Three incumbents going forward.

As an investor, does this mean you should switch to Shaw?

Drew McReynolds, an analyst at **RBC**, cautioned investors to be realistic with Shaw right now, because its wireless segment is still in the early stages. As I've mentioned in numerous pieces, investors are going to need to be patient with Shaw because the battle for wireless market share will be fought over the course of many years.

If you are a patient investor, then it would be a smart strategy to buy Shaw now and on any signs of weakness.

Bottom line

Freedom Mobile is becoming a major disruptor in the Canadian telecom scene, and I believe the Big Three incumbents will face major headwinds in the form of pricing pressure and other customer-retention initiatives to prevent the loss of subscribers to Freedom's rapidly improving wireless network.

If you own shares of Telus, Rogers or **BCE Inc.**, then it may be time to start trimming, as it's going to be increasingly difficult to grow subscribers over the next few years with Freedom Mobile on its way up.

I'm not sure which Big Three telecom will be most effective at retaining its subscribers, but one thing is certain: all Canadian wireless users win when all is said and done.

Stay smart. Stay hungry. Stay Foolish.

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