Should Investors Gamble on a Resurgence in Cable?

Description

In a recent interview, **Rogers Communications Inc.’s** (TSX:RCI.B)(NYSE:RCI) chief executive officer Joe Natale expressed confidence in the ability of the cable industry to grow. “For the last few years, everyone believed we’re in the ninth inning of the cable business,” Natale said. “I fundamentally believe we’re actually in the second or third inning.”

What should investors make of Joe Natale’s vote of confidence?

A study released in April by Convergence Research Group Ltd. saw a decline of 220,000 traditional television subscribers in 2016. This in comparison to a decline of 190,000 in 2015. The group estimated about 250,000 customers to end their subscriptions this year. The Canadian television subscriber base is dropping 2% a year, and by 2019 Convergence Research Group expects declines to hit 3% per annum. Canadian revenue from media delivered via the internet saw growth of 35% in 2016.

Rogers and other companies, like **Telus Corporation** (TSX:T)(NYSE:TU) and **BCE Inc.** (TSX:BCE)(NYSE:BCE), have responded by investing massively in digital services. Cable companies must commit to launching an effective counter to providers like **Netflix, Inc.** and **Amazon.com, Inc.** or risk becoming only a provider of wireless data.

Rogers has drawn significant strength in its most recent earnings reports, which beat analyst expectations, from its booming wireless division. In the second quarter, Rogers added 93,000 wireless subscribers in the three months ending June 30. Joe Natale pointed out that demand for data had doubled every 16-18 months. Recently, Rogers raised rates for mobile data coverage from $5 per 100 MB to $7 on its Share Everything plans; that works out to $20 more for every gigabyte in coverage. Bell offers identical rates to its customers.

BCE Inc. released earnings on August 4 and reported a 6.7% increase in revenue to $5.7 billion. This was driven by a 7% increase in service revenue as there was sizeable growth in Bell Wireless and Bell Wireline. The company saw growth in sales of premium mobile devices and an increase in wireless customer transactions.

These cable giants are going to be increasingly reliant on wireless subscribers and rising rates to boost revenues. In addition to regular viewers cutting the cord, younger consumers are far more likely to turn to alternative providers due to lower costs and the promise of original content that companies like Netflix and Amazon are increasingly investing in. There is the potential for a partnership between cable giants and these providers, but the recent split between Netflix and **Walt Disney Co.** may be an indication that competition will only intensify for privilege to provide particular content.

The companies listed above do, however, provide good dividends that will still make it worth it for investors willing to add these equities to their portfolios. BCE Inc. boasts a 5% yield, Telus pays 4%, and Rogers pays 3%. Demand for data is also booming, which could offset the substantial losses in regular television subscribers for a time.

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aocallaghan