Headwinds Abound for the Canadian Wireless Industry

Description

It's been a great decade so far for the Canadian wireless industry. Corporate profits are at all-time highs among the Big Three Canadian telecoms, **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI), **BCE Inc.** (TSX:BCE)(NYSE:BCE) and **Telus Corporation** (TSX:T)(NYSE:TU).

Investors who have held stock in the sector over the past 10 years are likely not complaining either, as the shares of these three wireless behemoths have gained an incredible 246% on average over the eight years since the Financial Crisis.

Add these gains to an average dividend yield of 3.85% among those firms, and everyone should be pretty happy.

And yet there are some signs looming on the horizon to indicate that someone may soon be taking away the punchbowl from the party.

Regulation affecting wireless prices

Upon his departure as head of the Canadian Radio-television and Telecommunications Commission, Jean-Pierre Blais suggested that Canada will "always have a problem of high retail wireless prices" until something is done to address the problem head-on.

While a replacement for Blais has yet to be named, the outgoing chief suggested that the government may even need to go as far as to intervene in the market and implement price controls to protect Canadian consumers.

Canadian wireless, internet and home phone prices are among the highest in the world, so change may come as a relief to many Canadians who are dealing with a nasty phone bill.

That change would be great for the consumer, but detrimental to any shareholder holding Rogers, BCE or Telus stock.

Any impact on pricing across the cellular or internet spectrum would directly impact these firms' top lines, and unless severe measures can be taken to rein in costs (which would likely involve large-scale layoffs), it's going to have a major impact on the wireless industry's profitability.

Enter Shaw Communications Inc. (TSX:SJR.B)(NYSE:SJR)

As if the threat of pricing restrictions weren't bad enough, Shaw Communications is making an aggressive push into the wireless market, recently acquiring 700 MHz and 2,500 MHz wireless spectrum licences for $430 million from **Quebecor, Inc.**

Investors who have been following telecom activity south of the border may be familiar with the strategy **T-Mobile US Inc.** (NASDAQ:TMUS) pursued when it first entered the U.S. market a few years ago.

Like Shaw, T-Mobile was a new, smaller entrant that felt it needed to aggressively attack the pricing strategy that was being used by established market incumbents. The result was a long, drawn-out price war that directly impacted the profitability and outlook of most players within the industry.

What's even more alarming as it relates the outlook for the Big Three Canadian telecoms today is that T-Mobile's strategy eventually proved effective in taking market share from incumbents, and the company is now a major player in the U.S. wireless industry, along with **Verizon Communications Inc.** , **AT&T Inc.,** and **Sprint Corp**.

What does it mean for investors?

The one redeeming quality for investors who hold Canadian telecom stock is the quality of the dividend yields.

Besides Rogers, which yields 2.81%, BCE, Telus, and Shaw all pay yields above 4%.

Yet with the Bank of Canada raising interest rates, those dividends may not be quite so attractive in light of higher yields on fixed-income securities.

For income investors and retirees, the Big Three Canadian telecoms will likely remain a safe place to park your money while you get paid to wait. For the investor demanding a higher return on their capital, there are likely better opportunities to be found elsewhere.

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