Can Shaw Communications Inc. Win its War?

Description

One reason I'm an advocate for owning one of the three major telecommunications providers is the competitive moat these companies have with regard to wireless service. We're all addicted to our phones, and the Big Three benefit immensely from that. It requires significant funds to launch a new venture and even more to reach any sort of scale. So, no one really tries…

Unfortunately for the Big Three, **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) didn't get the message.

In March 2016, Shaw made its first major move into the wireless space by acquiring Wind Mobile Corp., paying $1.6 billion for 940,000 wireless customers across Ontario, Alberta, and British Columbia. The CEO of Shaw called the wireless business a "missing piece" of the company's strategy. This makes sense since the Big Three are able to bundle services together; this was not possible for Shaw, putting it at a competitive disadvantage.

Shaw has been doubling down on this strategy through a variety of divestitures and acquisitions. It sold its entire media business to **Corus Entertainment Inc.** for $2.65 billion, though it still owns 39%. It also sold its data centre business for $2.3 billion after paying $1 billion three years earlier. And the company bought 700 MHz and 2,500 MHz frequencies from **Quebecor Inc.** for $400 million.

This strategy has put it in place to rapidly scale out its business. Additional cash on the books will allow it to offer competitive rates to new clients. The additional frequency will ensure the service it sells is high quality and actually runs. There's no point spending money for a customer that's going to leave because the service is bad.

So, how is the strategy going?

The strategy is slow to grow. In its most recent quarter, Shaw added 20,000 new wireless subscribers. A year prior, it added 22,000. These are very small numbers when considering that the business is brand new. I expect the Big Three to add small numbers since they already have saturation. Shaw is new and should be able to pick up new customers.

Shaw is focusing on boosting its network before it starts a nationwide advertising campaign. As I said above, if you sign customers up and they can't use the service, they'll leave. Attrition is horrible for companies like this.

Another problem that we'll have to wrestle with is margin. Because the Big Three have reached saturation, they can slowly increase prices to increase their margins. For Shaw, it'll have to invest heavily to attract customers, which will cut into the profit margin. How long will it take Shaw to reach a critical mass where profits are significant enough?

The truth is, it'll take years before we see the true impact of Shaw's mobile strategy. Offering wireless service to its customers is a defensive move.

The risk is always significant when betting on the little guy. However, Shaw makes it a little less risky by paying a $0.10 monthly dividend. It'll take time, but if anyone can achieve it, Shaw seems like the right company.

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