



Dividend Investors Should Prepare for a Violent Canadian Telecom Shake-Up in 2018

Description

Freedom Mobile, the wireless business of **Shaw Communications Inc.** ([TSX:SJR.B](#))([NYSE:SJR](#)), is starting to make the headlines following its aggressive promo ramp-up, which appears to be making the Big Three incumbents nervous. Following Freedom's recent "Big Gig" promo, the Big Three responded by offering a limited time promo of their own (10 GB for \$60). There's no question that the pricing pressure is being felt early on, and as we head into 2018, the days of absurd wireless rates could be coming to an end.

The war for wireless share has already begun

The Big Three have mentioned in the past that they have no plans to reduce their prices in response to the rising threat in Freedom. It's clear that Freedom's network is inferior to those of the Big Three, and at the time, their management teams probably thought Freedom wouldn't cause much pricing pressure, but as we head into 2018, we'll see that they were wrong as wireless plan rates receive cuts across the board.

Wireless service is a commodity, so if there's a better deal out there, Canadians won't hesitate to switch. When Wind Mobile was acquired by Shaw nearly a year ago, the telecom giants brushed their concerns of a potential rise in competition under the carpet, since, at the time, Wind's network was spotty and unreliable.

Fast forward to today, the Freedom network has received significant network upgrades, **Apple** iPhones are now a part of the roster, and the price is significantly lower than those of its Big Three competitors.

As we head into 2018, Shaw is going to continue to invest in further upgrades to Freedom's network, and I believe we'll eventually reach a perfect balance between affordability and reliability. Add aggressive promos to the equation, and I think we'll see a tonne of wireless users switching over from the Big Three.

Why rate cuts for the Big Three are inevitable

In many previous pieces since Shaw's purchase of Wind Mobile, I've emphasized my distaste for the Big Three telecoms. I claimed that the Big Three incumbents would eventually succumb to the pricing pressure brought forth by Shaw's entrance to the wireless business, and this, indeed, is what we're beginning to see.

"People are now able to unlock their phones and switch carriers more easily, so that creates more competitive pressure," said Marc-David Seidel, a business professor at UBC. "That price shake-up from a fourth carrier is what sparked this."

Why Freedom is a serious threat that could spark a correction in the Big Three

In another previous piece, I outlined the possibility of a [Big Three telecom crash in 2018](#) caused by Freedom's disruptive entrance to the Canadian telecom scene. At the time, some analysts stated that Freedom's impact would be "manageable" and probably shouldn't be a cause for concern for Big Three investors.

I think the recent 10 GB for \$60 response from the Big Three is a sign that subscriber losses have already begun. When next year's quarterly results are released, we'll have the opportunity to see just how deep the Freedom-inflicted wounds are. And this is just the start!

In a previous piece, I'd predicted that the Canadian telecom marketing tactics would evolve to [become more like the telecoms in the U.S.](#) with extremely aggressive promos in a never-ending war for wireless subscribers.

Why?

Shaw recently hired Mike Sievert, the former COO of **T-Mobile US Inc.**, a man who's no stranger to extremely aggressive U.S. telecom marketing tactics. Mr. Sievert has a wealth of experience in the wireless space, and I believe he'll accelerate the imminent disruption that Freedom will have on the Canadian wireless scene after contributing to a board he's slated to join on January 11, 2018.

"Mike [Sievert] brings depth of business-to-consumer marketing expertise in the industry which will complement our customer-focused approach as we continue to grow and chart our unique path for our wireless business," Shaw's CEO said about the hiring.

Bottom line

I've been urging investors to buy Shaw over the Big Three incumbents over the past year, in spite of many analysts downplaying of the potential for disruption in the wireless space. With a 4.1% yield and a disruptive growth profile, I strongly recommend investors back up the truck on Shaw today.

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