Traders: Here's a Long-Short Strategy for Canada's Telecommunications Sector

Description

When thinking about Canadian telecommunications companies, typically one of the country's "Big Three" companies will come to mind. Of Canada's biggest three telecommunications companies, **BCE Inc.** (TSX:BCE)(NYSE:BCE) has remained Canada's largest for some time due in large part to its large infrastructure footprint and deep pockets, which the company has used to continue to re-invest in providing higher-speed fibre optic service to its customer base primarily located in eastern Canada.

Bell Canada, a subsidiary of BCE, has some of the best fundamentals of all telecommunications companies on the TSX, with a juicy yield of more than 5% — a key draw for investors seeking yield in today's rising interest rate environment.

Like its peers, BCE has struggled in this rising interest rate environment. Shares of BCE are down more than 10% since mid-December, as investors have largely eschewed investments in companies offering above-average yields for other, safer fixed-income alternatives. While rising interest rates are likely to continue to provide a near-term headwind to BCE and its competitors, focusing on firms that may provide the best value among a group of peers with a similar product offering, and incorporating a long-short strategy is one way to make money in any market (bull, bear, or sideways).

While I still generally prefer **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) over BCE for a number of reasons, including the unique growth profile of Shaw given its competitive position and intention to provide a low-cost option for Canadian wireless customers, who pay among the highest rates in the developed world for wireless services, holding a portfolio of BCE and Shaw would provide investors with a portfolio of two companies that tick off the risk/reward boxes better than a combined portfolio of **Telus Corporation** (TSX:T)(NYSE:TU) or **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI), in my opinion. A long-short strategy, therefore, of going long BCE and SJR.B, while going short T and RCI.B is one strategy I am considering at this point in time.

Bottom line

Picking and choosing potential winners and losers within a given sector can be fraught with issues for investors who have not done their homework and dug into the specific nuances of each company within a given sector. With the aforementioned four companies controlling nearly the entire Canadian telecommunications sector (we can assume any small player that pops up will be swallowed), taking a long position on two firms and a short position on two firms which are expected to lag is one way to play the long-term trajectory of a sector and gobble up the alpha arising from the difference in performance across firms in the same sector.

Stay Foolish, my friends.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:SJR (Shaw Communications Inc.)
4. NYSE:TU (TELUS)
5. TSX:BCE (BCE Inc.)
6. TSX:RCI.B (Rogers Communications Inc.)
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