Telecoms to Hike Internet Prices: Should You Buy These 2 Stocks?

Description

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI) and **BCE Inc.** (TSX:BCE)(NYSE:BCE) announced that both telecoms would raise prices on internet plans in 2018.

Rogers will hike prices on internet plans at a rate of $8 per month; its cheapest package will increase by $4 per month. BCE will hike its internet prices by $5 per month in Ontario and $3 per month in Quebec. The company will also increase its overage charges to $4 per extra gigabyte from the original $1.

As usual, there was a good deal of public outcry following the announced rate hikes. This comes in the wake of controversy surrounding sales tactics employed by telecom companies. In this instance, customers vented online about "price gouging," and many threatened to switch to smaller providers. According to Statistics Canada, spending on internet services has climbed over 35% since 2012 for the average Canadian household.

Telecom companies have been wrestling with declining television subscribers in recent years but have received a boost from wireless growth. Companies have seen even larger on-average revenue growth from internet services — 10% from 2015 to 2016, according to the CRTC. BCE and Rogers have said that the price increases are required to pay for the enhanced services that customers are receiving.

Telecom stocks have been battered to start 2018, as rising interest rates and bond yields have driven away interest in secure dividend plays with mild capital growth potential. Consumers are used to price increases, but some analysts warn that Canadians should become more aggressive with price shopping. This could be exacerbated by the record consumer debt faced by Canadians.

BCE stock has dropped 5.7% in 2018 as of close on March 9. The company released its 2017 fourth-quarter and full-year results on February 8. BCE posted 234,728 net broadband customer additions in 2017, which represented a 40.8% increase from the prior year. It added 27,040 new internet customers. Operating revenues grew 4.6% to $22.7 billion in 2017, and adjusted EBITDA climbed 4.4% to $9.1 billion.

The company will bring a fibre-optic service to its customers in a $1.1 billion plan and will also launch a significant advertising campaign this spring. BCE stock offers an attractive quarterly dividend of $0.75 per share, representing a 5.3% dividend yield.

Shares of Rogers have plunged 8.6% in 2018 thus far. The company released its 2017 fourth-quarter and full-year results on January 25. In 2017, Rogers added 85,000 net internet customers, while also shedding 80,000 television subscribers. For the first time, Rogers reported higher internet revenues than television in 2017, totaling $1.6 billion, which represented a 7% jump from the prior year. Television and phone revenues were down 4% and 9%, respectively.

Rogers holds a strong foothold in the Toronto markets but will face increased competition in 2018. It plans to respond with an internet-based television platform this year. The stock also offers a quarterly dividend of $0.48 per share, representing a 3.3% dividend yield.

The expectation of a sharp consumer response may be overblown, as service providers move to increase costs across the board. However, BCE’s new offerings to start 2018 could give it a boost, and shares come at a nice price right now. Both are solid income plays after falling steeply in the last weeks of 2017 and the beginning of 2018.

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