Can Shaw Communications Inc. Compete With the Big 3?

Description

Canada's telecommunications sector has long been dominated by three players: **BCE Inc.** (TSX:BCE)(NYSE:BCE), **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI), and **Telus Corporation** (TSX:T)(NYSE:TU). The trio accounts for approximately 89% of the wireless market share and 91% of wireless revenues.

In March 2016, **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) entered the mobile market when it finalized its acquisition of Wind Mobile, now re-branded Freedom Mobile. The deal added 940,000 wireless customers to Shaw's wireless platform. At last, Canada was expected to benefit from a well-financed fourth player in the industry. The question is, can Shaw succeed where others have failed?

Maturing market

According to Canada's 2017 Communications Monitoring report, wireless revenues account for 52% of all retail communications revenues. A number that increases in percentage year after year. The wireless market has grown at a compound annual growth rate (CAGR) of approximately 4% over the past five years. Similarly, the CAGR for revenue growth per wireless subscriber from 2012 to 2016 was only 1.8%.

Smartphone penetration among adults aged 18 has now reached approximately 84% countrywide. The Canadian market is reaching saturation, and wireless growth is expected to slow moving forward.

Capturing market share

The key to Shaw's success will be its ability to capture market share from the Big Three. This is no easy task. Churn rate, which refers to the rate at which customers change providers, is very low. Between 2012 and 2016, the churn rate at the Big Three hovered between 1.2 and 1.8%. In 2012, the average churn rate was 1.67%, and in 2016 it dropped to 1.4%. Despite anecdotal feedback that customers are frustrated with their providers, they aren't quick to make a change.

Aggressive pricing

This past fall, Shaw launched an all-out attack against the Big Three by significantly undercutting prices. It also offered new iPhones free of charge immediately upon release. This is contrary to the norm of offering premium phones for free only months after release. The discounts were met with swift retaliation, as the Big Three scrambled to retain its customers. A statement was made: Shaw intends to disrupt the sector.

Strategy is working

Last week, Shaw released its fourth-quarter earnings, and it handily beat analysts' expectations. It added 93,500 wireless customers, double that of the 45,000 expected. The company's strategy of offering more data for less is clearly working. Its intra-day share price jumped almost 10% on the announcement.

The future looks bright

The company still trails the Big Three in network coverage and infrastructure. However, the company has the financial resources to continue deploying spectrum that will improve network connectivity. Shaw will also benefit from the federal government's decision to set aside spectrum for smaller players in an upcoming auction.

The company isn't as cheap as it once was, but it has shown that it is ready and able to compete with its larger competitors. Canada, your fourth player is finally here. Shaw is a buy on any weakness.

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