



## Why I Wouldn't Touch the Big 3 Canadian Telecoms With a Barge Pole

### Description

The Big Three Canadian telecoms have been must-own holdings over the past decade. Not only did they possess high upfront yields, but their stocks appreciated with minimal amounts of volatility, and the generous annual dividend hikes were icing on the cake.

Moving forward, though, I believe these days are coming to an end, and it's not just due to the headwind of rising interest rates. So, if you're expecting the same magnitude of performance (capital gains and large dividend hikes) going forward, I think you're going to be very disappointed.

### **The Canadian telecom scene will soon become like that of the U.S.**

Just have a look at the U.S. telecom behemoths in **AT&T Inc.** ([NYSE:T](#)) or **Verizon Communications Inc.**

Both of these names have not delivered much in the way of capital gains over the last five years. AT&T stock has actually fallen over 10% during this time span!

For our neighbours south of the border, the big telecoms are essentially no-growth utilities that require endless amounts of spending on infrastructure upgrades to remain competitive. With little to no room to pull ahead of competitors, each mature telecom firm has fallen to the law of diminishing marginal returns.

After a certain point, even the telecom firms with tonnes of cash to spend will find that it's just not worth it to keep spending to obtain marginally better network that wireless users will barely notice. Compared to Canada, American telecoms are on a much more even playing field, and as the bar raises (new 5G wireless tech), each firm will be quick to adopt new technologies to keep up. The window of opportunity for a first adopter of such new tech remains very short, though, and is thus not a means for meaningful growth.

The high degree of competition down south has been destructive to the growth outlook for the behemoths. Price undercutting and aggressive promos are the norm in the U.S. wireless market with the cut-throat amount of competition.

While the telecom market is still an oligopoly like in Canada, prices aren't controlled like they are here. That's thanks in part to the continued rise of **T-Mobile US Inc.** ([NASDAQ:TMUS](#)), which is the disruptor that will likely continue to gain market share on the big two incumbents in AT&T and Verizon with its "Un-Carrier" strategy that bodes well for the average American consumer.

Simply put, the most dominant players (AT&T and Verizon) are playing defence, while T-Mobile and other select small players are playing offence to reach a market equilibrium level where they'll have a share that's more in line with the current industry leaders.

### **The current state of the Canadian telecom market**

The Big Three oligopoly continues to control prices, and at these levels, Canadians pay some of the highest wireless rates in the developed world. Moreover, questionable sales tactics and price gouging practices (e.g., exorbitant overage fees) that boosted sales numbers in the past are no longer a reliable source of growth with regulators taking on a more proactive role to foster competition in the wireless market.

Moving forward, I think the "must-own" days of the Big Three telecom giants are over, as the collusion will be destroyed thanks to the continued rise of the number four player in Freedom Mobile, the wireless subsidiary of **Shaw Communications Inc.** ([TSX:SJR.B](#))([NYSE:SJR](#)), which appears to be [taking on the role of T-Mobile in the Canadian telecom market](#).

**BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)) looks like the AT&T of the Canadian telecom scene and over the next few years, I think the company will be in a horrible position as both regulators and new technologies (e.g., eSIM) will make it profoundly easier for Canadians to switch over to a small up-and-coming provider like Shaw.

Thus, [if you own BCE](#) (or any other Big Three telecom), you'd better be comfortable with the idea of minuscule capital gains over the next decade. I suspect the dividend yield will eventually swell past the 6% mark, as shares remain flat for a prolonged duration of time.

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