Shaw Communications Inc.'s (TSX:SJR.B) Quest to Topple the Big 3 Is Hindered by Many Obstacles

Description

Canada's telecom sector has long been dominated by the Big Three. Despite many attempts to spur competition, the government has been unsuccessful in fostering that elusive fourth player.

That being said, for the first time there appears to be a legitimate contender. In mid-2016, **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) entered the wireless space with its acquisition of Wind Mobile. It has since re-branded to Freedom Mobile. This past holiday season, consumers saw first hand how Shaw intends to disrupt the sector.

Freedom took a shot across the bows of the Big Three, offering much larger data plans at a significant discount to the incumbents. The result? Freedom added a record 93,500 post-paid wireless subscribers in the holiday quarter.

Shaw has stated it wants to capture 25% of the wireless market. This will be no easy feat and may have put unrealistic short-term expectations on the company. Why? There are plenty of obstacles the company still needs to overcome.

Corus overhang

The company currently owns a significant stake in the embattled **Corus Entertainment Inc.** — a stake that has seen its value obliterated over the past year. Shaw has disclosed it is looking for buyers as it focuses on its wireless property. Unfortunately, no one has yet stepped up.

Corus's poor performance has been a significant drag on earnings. In the third quarter, Shaw took a $284 million impairment charge on its investment in Corus. This led to a net loss of $91 million in the quarter, as opposed to a net profit of $133 million in 2017.

Until the company can dispose of its stake, Corus will continue to distract from its good news stories.

Wireline market

Shaw has made great strides in the wireless market. It is important to note, however, that almost 80% of the company's revenues come from its wireline business. This segment has seen little to no growth over the past few years. In the third quarter, it saw a decrease of 14,400 revenue-generating units (RGU). For those unfamiliar with the term, an RGU is a customer who generates recurring revenue for the company.

This is not great, and CEO Brad Shaw agrees: "We are not pleased with the overall execution within our wireline business." The company is still very much reliant on the revenues generated from the wireline segment. Any continued weakness in this area will put downwards pressure on its share price.

Playing catch-up

Shaw will have to plough a significant amount of money into its wireless infrastructure to catch up to the Big Three. It has the financial capacity to do so, but this will take time. Likewise, it will continue to be large expense on the balance sheet.

In the meantime, the Big Three continue to dominate the market. They have also shown that they are able and willing to aggressively fight back. The group was quick to respond to Shaw's disruptive holiday packages and will no doubt match any promotion Shaw puts out there.

The increased competition and aggressive pricing is a significant benefit to us consumers. However, it also means that Shaw has its work cut out for it. Although I believe the company will succeed where others have failed, don't set your expectations too high in the short term.

Shaw's wireless strategy is a long-term game.

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