



Better Telecom Play: Telus Corporation (TSX:T) vs Shaw Communications Inc (TSX:SJR.B)

Description

The wireless industry in Canada is dominated by three powerhouses, which together control about 90% of the market. However, over the past few years, **Shaw Communications Inc** ([TSX:SJR.B](#))([NYSE:SJR](#)). has been trying to disrupt the status-quo.

Shaw is well known in the telecom industry as a provider of internet and TV services, but it recently entered the wireless sector. Despite its recent growth in this sector, Shaw faces an uphill battle against giants such as **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)). Should telecom investors bet on Telus or on Shaw?

Telus Corporation

Many of Canada's telecom companies benefit from network-sharing agreements with each other. These agreements improve both the quality and availability of wireless services. According to **OpenSignal's** latest speed tests, though, Telus currently offers the fastest wireless service among the Canadian telecom giant. Telus' wireless net additions have averaged about 318,000 over the past three years, although this growth has slowed recently.

Fierce competition from smaller companies that offer lower prices – one of which is Shaw – is primarily responsible for the slower growth in net additions. In response to this competition, Telus began offering cheaper wireless plans. Telus' wireless segment has another thing in its favour: an excellent churn rate, which was 0.89% in 2018, down from 0.95% in 2016. The Vancouver-based telecom company keeps its existing customer at an excellent rate.

Telus has tried to offset its slowing wireless segment with its wireline segment. The company recently upgraded its internet network to Fiber to the Home (FTTH). FTTH offers various advantages, the most important of which is speed. In the world of endless news, tweets, and retweets, customers value internet speed like they do few other things.

Telus hopes to drive customer growth with this upgrade. Net wireline addition in 2018 was 127,000, up from 40,000 in 2017. Wireless and wireline makeup the lion's share of Telus' earnings. As the wireless market gets more competitive, wireline will play an increasingly important role in keeping the company's earnings afloat.

Shaw Communications

Shaw does not benefit from as much brand recognition as Telus does within the wireless sector. The company offers wireless service through its subsidiary, **Freedom Mobile**, which it acquired in 2016. Freedom Mobile was originally an independent wireless company by the name of Wind Mobile.

Shaw's wireless branch has made serious headway. The company not only offers cheaper options compared to the telecom giants, but the quality of its wireless services has also improved. Shaw started offering the most popular cell phone on the market – the iPhone – in late 2017, which has helped grow the company's customer base.

The numbers back up Shaw's growth in wireless. The company's latest earnings show a net addition of 66,000 subscribers to its wireless network during Q1 2019, with a postpaid churn of 1.28%, down from 1.64%. Consolidated wireless revenue increased by 60%. While some of these numbers seem unimpressive compared to Telus', the company is still new to the game.

Shaw has also been trying to compete by providing innovative plans, the latest of which was its Big Binge Bonus, a plan option that gives customers far more LTE data to work with. The company recently started offering wireless services in two more territories, and more will likely follow.

Some investors may be worried about Shaw's declining TV and landline segments, which lost 4.5% and 8% of subscribers, respectively. However, the company's wireline segment is still very profitable, and together with wireless, form the bedrock of the company's future earnings.

The bottom line

Shaw's venture into the wireless business is commendable. Whether it poses a real threat to any of the big three is debatable; they at least have to acknowledge Shaw's presence. Despite its strong push, however, Shaw's wireless segment is still inferior to that of Telus, both in terms of quality and reach.

Telus' wireline segment is relatively strong and will be an essential growth driver for Telus in the future. As Telus has done a better job of balancing its wireless and wireline segments, however, it looks like the better buy right now. As a bonus, Telus is the [superior option](#) for dividend investors.

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Date

2025/08/29

Date Created

2019/02/27

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