



1 Reason to Hold Onto BCE Inc. (TSX:BCE) and Telus Corp. (TSX:T) in March

Description

Canada and China experienced a geopolitical falling out in late 2018 after the arrest of Huawei executive Meng Wanzhou. In the weeks that followed, China has been critical of Canada on the world stage and has threatened boycotts that have [disrupted the stock price](#) of companies like **Canada Goose**.

The biggest development over the course of this spat has been Canada's vow to reevaluate its relationship with Huawei, the Chinese multinational telecommunications giant. The United States has been increasing pressure on Canada to ban Huawei from participating in the development of its 5G network. This has the potential to harm companies like **Telus** ([TSX:T](#))([NYSE:TU](#)) and **BCE** ([TSX:BCE](#))([NYSE:BCE](#)), which have [invested in Huawei](#) equipment and planned to partner with the company in building the 5G network.

Recent events have demonstrated that the US-led campaign against Huawei may be losing steam. Last week *The Wall Street Journal* reported that German government officials were "leaning towards letting Huawei . . . participate in building the nation's high-speed internet infrastructure." The report states that a probe from German intelligence failed to show that Huawei could use its equipment to "siphon off data."

British Intelligence has also concluded that risks from a partnership with Huawei can be mitigated. In late 2018, Huawei agreed to United Kingdom security demands that will cost the company roughly \$2 billion, but will allow it to participate in the construction of Britain's 5G network. India, one of the largest telecom markets in the world and a Chinese rival, has also indicated that quality and price would drive its policy in this area. All signs point to India moving forward with Huawei.

Even United States President Donald Trump appeared to offer an olive branch via **Twitter**. On February 21, Trump tweeted; "I want the United States to win through competition, not by blocking out currently more advanced technologies." Currently, the United States is unable to deploy a completely US-made 5G network.

On February 14, Telus acknowledged that the development of the 5G network could be delayed and

more expensive if Canada opts to ban Huawei. Telus has stated that it doesn't believe that Huawei poses a security threat. The company doesn't expect 5G wireless networks to be deployed until the second half of 2020 at the earliest.

BCE has been more optimistic in assessing the development of the 5G network in Canada in the event of a ban on Huawei. The company said that the ban would not affect its capital expenditures plan or the timing of its 5G network rollout. **Canadian Imperial Bank of Commerce** analysts disagree, saying in February that a ban would be "problematic" for both companies.

Predicting the actions of the Canadian government is tricky business, especially as the Trudeau-led Liberals are currently wrestling with a historic scandal. However, decisions from U.S. allies such as Germany and Britain to stick with Huawei suggest that the U.S. allies are split on their measurement of the security risk the company poses. The outcome of trade negotiations between the U.S. and China, which have reportedly entered a critical stage, could also play a role in how Canada chooses to move forward.

Telus and BCE stock have posted nice gains in 2019 as of close on February 28. A resolution to the Huawei question should be forthcoming, which is reason enough to hold onto both stocks in March.

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Author

aocallaghan

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