



Jagmeet Singh Targets Telecoms: Are the Big 3 Still Safe to Own?

Description

Earlier this week, NDP Leader Jagmeet Singh announced his plan to go after Canada's big telecoms with the hopes of getting them to provide more affordable cellphone and internet services to Canadians. As you may know, Canadians pay a pretty penny for their phone and internet services, and that's not helping Canada's ridiculously high of consumer debt levels, which desperately needs to normalize.

They're "effectively being ripped off" exclaimed Singh in an interview conducted by *CTV News*.

It's not a mystery that federal regulators have the desire to foster more competition in Canada's telecom scene. [Shaw Communications](#) ([TSX:SJR.B](#))([NYSE:SJR](#)) and its foray into the wireless space is expected to apply negative pressure to wireless rates over time, but over the near term, Shaw's mobile business Freedom Mobile is unlikely to move the needle until the next generation of wireless tech finally hits the mainstream.

The rise of 5G could very well provide a nice runway for Shaw to go in for the kill and grab an equal share of the Canadian wireless market (the long-term goal), which would allow Canadians to get more bang for their buck. But until such an ideal scenario happens, Shaw is going to be competing with its deep-pocketed bigger brothers in the 5G arms race that's going to end up in a very hefty capex bill.

On the wireless front, any regulatory hurdles placed before the Big Three incumbents, like those outlined in the NDP's plan, including the creation of unlimited data plans (Shaw is rumoured to be a frontrunner in this category when 5G lands) and lower rates that are comparable to other OECD countries, should accelerate Shaw's wireless subscriber growth, which will drive down aggregate mobile costs for all carriers as cost undercutting becomes the major theme for the incumbents.

While the NDP's plan also includes steps to lower internet prices, I'd say the boon to Shaw's wireless business more than makes up for any reduced margins on the internet front, at least over the longer term. As for the Big Three, any implementation of the NDP's plan (or anything similar from other parties) could cause a vicious correction in shares.

Furthermore, I don't think the NDP will be the only party that will tout lowering telecom costs as a part

of their campaigns. Should competing parties match or raise the NDP on this front, we could see a rocky road ahead for the Big Three.

As such, I'd tread carefully as we inch closer to election day because increased government involvement could eat into the margins and subscriber bases of the telecom heavyweights. And to retain their subscribers and margins, the incumbents are going to need to make Canadians an offer they can't refuse. Stellar network quality, bundling, and driving up ARPUs are going to determine who will be the winners of the telecom war.

In any case, I wouldn't make any rash decisions if you already own shares of any Big Three telecoms, as they're still [dividend heavyweights](#). If you're thinking about adding though, I'd wait for a better entry point because I don't think potential government risks are fully factored in just yet.

Although the odds of an NDP victory are slim at this juncture, I wouldn't at all be surprised to see other party leaders comment on the matter when the time comes. If I had to guess, they'll probably agree with Singh when he says Canadians are being "ripped off," and that's not going to bode well for shares of the Big Three.

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