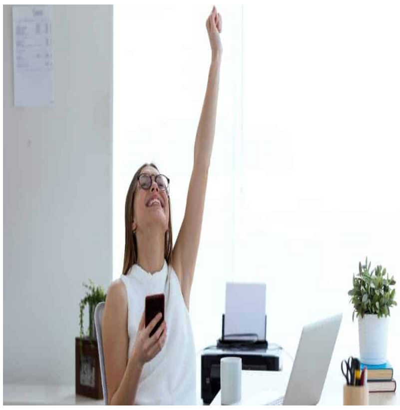

Will Freedom Mobile Win Where So Many Others Have Failed?

Description

Canadians suffer some of the worst wireless connectivity and the highest prices for data in the developed world. Much of this is the result of the oligopoly that controls the nation's telecommunications market. Together, the three largest players in the wireless sector hold 88.7% of the market.

The competitive advantage of expensive and expansive networks is undeniable, but the country deserves better services at reasonable prices. Any new challenger can lower prices and capture a piece of this valuable pie. However, challenging the Big Three will need tremendous capital and a tonne of patience. Many smaller players are vying for a top spot, but one company stands out as a clear favourite: **Shaw Communications** (TSX:SJR.B)(NYSE:SJR).

Shaw's Freedom Mobile is now one of the most recognized mobile service provider brands in the country. It's also a clear favourite with budget-conscious consumers living in metropolitan regions. But will the Freedom Mobile venture break through the stranglehold of the top three? More importantly, will such a victory deliver returns and eventual dividends for long-term Shaw shareholders? Here's a closer look.

Freedom's competitive advantage

From 5,000 subscribers at launch in 2009 to over 1.5 million today, Freedom's subscriber base has grown at an annual pace of 77% compounded annually over 10 years. The company now controls 4.5% of the market and has coverage across all major metropolitan areas.

Shaw has managed to retain the budget-friendly image of Freedom Mobile, while aggressively investing to upgrade its network across the country. The provider is now one of the few to offer Long-Term Evolution (LTE) and Voice over Long-Term Evolution (VoLTE) for subscribers with specific phone models.

The extended wireless network covers regions with a potential 16 million subscribers. Meanwhile, the company claims it has been testing the fifth generation of wireless technology (5G) since mid-2018.

Impact on Shaw

All these investments have helped Shaw's bottom line already. Wireless services are already 18% of revenue and 8% of net income based on figures from 2018. 73% of Freedom subscribers are postpaid, which gives the company a reliable stream of recurring cash flow and allows it to plan long term for capital investments.

Shaw also has a combination of cash on hand and low debt to fuel investments at its current pace for the foreseeable future. Cash and cash equivalents total $1.3 billion. For context, the company had to spend $430 million to acquire critical spectrum from **Quebecor Inc.** which allowed it to offer a data promotion of 10 gigabytes for $60.

Debt, meanwhile, is only 87% of the company's equity, so there's plenty of room for Shaw to borrow at low interest rates and accelerate its investments in 5G technology and spectrum auctions.

In fact, the Ministry of Innovation, Science, and Economic Development Canada (ISED) may reserve some of the 5G spectrum for smaller players in an effort to break the Big Three's monopoly and make services cheaper for everyone. If the government follows through, it could be the perfect catalyst for Shaw's Freedom Mobile.

Bottom line

Shaw's wireless service is perfectly positioned in a market that is ripe for disruption. The company's balance sheet and cash flows are robust enough to allow for a considerable expansion of the network and aggressive promotions to snatch away subscribers from the Big Three.

Investors should watch the 5G rollout carefully to see if Shaw can win substantial spectrum and break into the club of Canada's biggest telecom giants. Meanwhile, they can keep cashing in those lucrative 4.32% dividend payments.

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