



Bell Media (TSX:BCE) Hits Rough Waters Post-CRTC Decision

Description

Bell Media ([TSX: BCE](#))([NYSE: BCE](#)) was not happy with the recent CRTC decision to reduce rates that Bell may charge internet resale providers.

Bell Media is now reducing rural rollouts of high-speed internet fiber cables to difficult-to-reach areas. But is the reduction in service expansion the right business decision or a power play by Bell Media?

On August 15, the CRTC significantly lowered the wholesale rates that Bell's internet resell clients must pay to access Bell's network infrastructure.

The company claims that Bell will incur an additional \$100-million in costs to expand wireless home internet access in rural communities as a result of the lower prices.

Unfortunately, Bell's balance sheet doesn't back up the argument that the extra costs should harm rural investment.

Unfair subsidies?

On Tuesday, Bell released a statement claiming that the lower rates unfairly subsidize internet resellers at the expense of network providers like Bell.

Mirko Bibic, Bell's Chief Operating Officer, commented: "The CRTC's decision transfers capital from providers like Bell who are building Canada's modern broadband networks to wholesale resellers that invest little to nothing."

Necessarily, Bell must pay substantial costs to build and maintain broadband networks. Thus, Bibic does not believe that the new wholesale rates are set high enough to meet rural expansion goals. Nevertheless, Bell is similar to a monopolistic utility company in that the company has high fixed costs.

CRTC regulation is the price Bell must pay for its level of market power. Economic theory asserts that consumers may benefit from regulated monopolies if variable costs to the industry are low and fixed

costs are high.

Bell's net margin currently stands at 12.48% after taxes and operating expenses. Moreover, the stock's levered free cash flow is a hefty \$3.42 billion.

These numbers throw an unusual tone of irony onto Bell Media's claims that the decision is unreasonable.

Is Bell punishing regulators?

Bibic's response to the CRTC decision was quite childish and insensitive: "It is unfortunate that the CRTC's decision will hinder the positive momentum we've built in bringing full broadband Internet access to rural and other underserved communities."

It sounds like Bibic is trying to use the company's market power to punish the government. Rural communities still struggle with little to no access to fast wireless internet decades after the launch of the broadband networks.

Lack of access hurts many of Canada's critical export industries such as mining and farming – among other essential priorities of the government.

The decision will reduce Bell's broadband Internet investment in smaller towns by 20%, amounting to approximately 200,000 households, or one million locations.

Initially, Bell planned to expand access by 800,000 small-town homes in Manitoba, Ontario, Québec, and Atlantic Canada.

Bell had made these investment plans in response to the federal government's November 2018 Accelerated Investment Incentive. After expanding WHI service to more than 130 rural towns in Ontario and Québec, Bell will now need to reduce expansion plans due to the disincentive arising out of the CRTC decision.

It seems that Bell is banking that the government will rethink further disruptions to the company's bottom line if it doles out consequences in response to the regulation.

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