What the New Bell (TSX:BCE) Partnership Means for You

Description

This morning, **BCE** (TSX:BCE)(NYSE:BCE), also known as Bell, announced an expanded reciprocal roaming partnership with **AT&T** (NYSE:T) to provide Canadian business customers access to AT&T's LTE-M network across the United States.

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The deal sounds like a great way to help Canadian businesses expand their options to leverage the Internet of Things (IoT) technology. AT&T customers will also be permitted to roam on Bell's national LTE-M network in Canada.

Although Bell recently withdrew its support of rural broadband expansion, the company is still committed to supporting urban economic opportunities.

Nauby Jacob, VP of Products and Services at Bell, commented, "Bell is helping Canadian enterprises … improve their operations and grow their businesses. Our expanded partnership with AT&T further enhances Bell's LTE-M leadership by providing our customers with network coverage throughout Canada and the U.S."

Who will benefit the most from the partnership?

Companies heavily invested in delivery and logistics should benefit from the partnership, as the LTE-M network supports low-power to large-scale IoT applications, including asset tracking and fleet management. Also standing to gain are utility companies as municipal water system management grows its dependence on IoT innovations.

Of course, with the 5G rollout approaching in 2020, smart cities will become even smarter and need to rely on even more powerful broadband wireless networks to fully function. U.S. companies like AT&T have prepared for the 5G rollout more quickly than Canadian telecommunications providers like Bell. Thus, the partnership with AT&T should give Bell an edge in completing its necessary investments into 5G technology.

AT&T has the strong backing of an activist investor

AT&T has been in the headlines recently due to activist investor and hedge fund CEO Paul Singer's large, $3.2 billion purchase of AT&T stock last week, despite the company's lacklustre performance in the past year. Before the announcement of Mr. Singer's interest in AT&T, AT&T's share price remained fairly flat but now it is up over 10% for the year.

Shareholders responded positively when Mr. Singer's hedge fund Elliot Management sent an outspoken letter to the telecommunications titan asking its leadership to trim assets. Mr. Singer believes that AT&T's merger and acquisition (M&A) strategy only served as a distraction over the years, leading to waste and operational inefficiency. AT&T's return on assets is currently a low 3.35%.

AT&T is known for battling anti-trust regulatory bodies to increase its already large market power through M&A activities. This rent-seeking has only served to reduce returns in an industry with otherwise respectable operational margins.

Maybe Elliot Management will put a stop to expensive rent-seeking

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The company already exists within an oligopolistic framework in the United States. Although the company has not reached the same level of synergistic, collusive power like that of Bell and **Rogers**, it enjoys almost the same freedom. AT&T posts an operational margin of 15.8% and return on equity of 9.66%, while Bell boasts an operational margin of 23.41% and a return on equity of 15.14%.

Let's assume for a minute that AT&T has the potential to increase returns to that of Bell through wasteful spending on costly litigation to gain additional market power. After factoring in the legal costs, are these differences in returns worth the trouble? The additional economic rents and reduction in competition are not only inefficient but selfish to consumers who value options, privacy, and transparency more than ever.

Who knows? Maybe Mr. Singer's activism will help Canadian shareholders fight rent-seeking telecom conglomerates through the new Bell partnership.

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