Dividend Investors: Canadian Telecoms Just Plunged! Should You Buy the Dip?

Description

If you're looking for a defensive dividend stock as this bull market continues to shows signs of its age, you're in luck.

Canadian telecoms fell violently on Wednesday with **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) leading the downward charge, plunging over 8% on the day after management slashed its revenue and core profit forecast upon pulling the curtain on some weak third-quarter results that missed the mark on earnings.

The massive single-day decline sent shockwaves across the broader Canadian telecom industry, with shares of **Telus**, **Shaw Communications**, and **BCE**, each retreating by 4.4%, 4.1%, and 4.5%, respectively.

Rogers noted that increased demand for unlimited mobile data plans was a primary reason for the forecast downgrade, marking the first big hit to the chin of a Big Three telecom dealt by Shaw's wireless business, which has been raising the data bar of late, pressuring the incumbents to follow suit or face substantial wireless subscriber losses.

Capital expenditures for Rogers are now expected to be between $2.75 and $2.85 billion for 2019, down from $3.05 billion. Weak subscriber adds and lower overage fees were also contributing factors for the "miss and reduce" quarter.

As Justin Trudeau's Liberals continue to take action to lower cellphone bills for Canadians from the Rockies to the Bay of Fundy, the telecoms certainly have a lot to lose. And the triopoly days as we know them may be gone for good.

That means telecom investors are going to need to reset their expectations when it comes to total returns.

While big dividends and frequent dividend raises are still to be expected, the magnitude of capital appreciation will likely be lacklustre compared to years past, as government regulators and Freedom Mobile look to dismantle the competitive advantages possessed by the dominant Big Three titans of yesteryear.

After Wednesday’s telecom tumble, I think it makes a tonne of sense to do some buying, especially if you’re looking to batten down the hatches with a stable dividend. Not all telecoms are attractively valued at this juncture, however.

BCE, for instance, is still 6% away from its all-time high and looks ridiculously expensive at nearly 20 times trailing earnings. While the 5.2% yield sounds attractive, I’d say that given the lower magnitude of growth and the potential for “subscriber evaporation” that investors should demand at least a 6% yield.

On the other side of the spectrum, we have the disruptor in Shaw, which tumbled along with the pack, despite being one of the authors of Rogers’s pain.

For now, the telecoms will trade together, even though it’s apparent that the recent trend in subscriber growth suggests that some market share is taking place in the Canadian telecom scene. As such, I believe Shaw appears to be the biggest bargain after Wednesday’s nasty trading session.

Shaw stock sports a 4.7% yield, but unlike its Big Three peers, it is in the good books of federal regulators, which aim to foster competition in the space.

Foolish takeaway

I think investors need to stop looking to Shaw’s Freedom Mobile as that “inferior” fourth player and start looking to it as a credible threat with its value proposition.

As the economy grinds to a slowdown, look to wireless subscribers to gravitate towards the lower-cost option in Freedom Mobile as the two-year contracts of many Canadians finally reach their expiry date.

To me, the answer is clear. Shaw has an unfair advantage and will be forcing its bigger brothers to play in its arena, with unlimited data, no overages, and much lower fees.

Stay hungry. Stay Foolish.

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