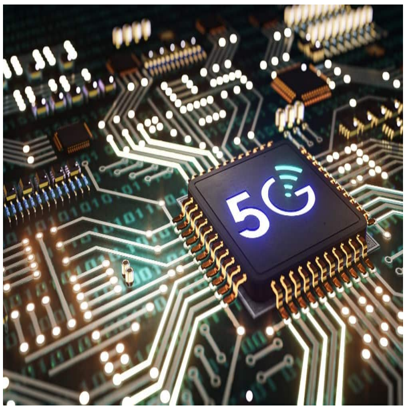

Regulatory Environment Positive for 5G Players Today

Description

Like other sectors, the telecom sector is one that's gotten outsized attention of late. The pandemic has caused a significant amount of interest in companies benefiting from work-from-home trends. With more Canadians relying on internet connectivity and low-latency connections to a greater degree than ever before, 5G players are once again in the spotlight for investors.

Additionally, the 5G transformation underway in the telecom sector positions key players well for growth. Sector behemoths **BCE** (TSX:BCE)(NYSE:BCE) and **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) are looking to ride this wave higher. And investors are welcome to come along for the ride.

Here's why I think the ride may be a good one from here.

A bullish win via regulators for 5G players

Regulatory hurdles are the elephant in the room when it comes to discussing telecom stocks. Indeed, Canadian regulators have tremendous power to tell telecoms how to price plans or the prices at which these large telecoms would need to sell access to their broadband networks to smaller players.

A recent ruling from Canadian regulators happened to be in favour of large telecom players like BCE and Rogers. The decision reversed a 2019 move, which slashed the wholesale rates companies like BCE and Rogers could sell network access to smaller competitors. This move reinstated previous pricing legislation set in 2016, with much more favourable rates.

CEOs of large telecom players spoke favourably of the deal, announcing additional infrastructure investment as a result. The question of how closely regulated these prices should be remains a sticking point for large corporate interests in Canada. Telecom CEOs have said these regulations stymy the ability of telecommunications companies to invest in infrastructure and expand service to more Canadians.

Profit growth potential looks much stronger

An obvious side effect of this ruling is a wind fall for BCE and Rogers shareholders. The ability for large telecom players to avoid having to pay more than $700 million in extra costs (approximately 70% of which would have been shouldered by BCE and Rogers) means more profit in the pockets of shareholders.

Sure, BCE and Rogers will likely ramp up infrastructure spending as a result. However, the question remains as to whether these investments would have been announced regardless of the ruling.

For now, investors should note that it appears regulators are backing big telecom players. This could mean higher bills for consumers over the near term. However, for investors in these mega-cap Canadian names, a positive regulatory environment is a very good thing.

Bottom line

Both BCE and Rogers ought to remain top picks of any long-term Canadian investor.

These companies provide investors with bond-like dividend yields and consistent growth over time. With a positive regulatory environment acting as yet another tailwind, these stocks should do just fine over the long term.

For Rogers specifically, this ruling is favourable when investors consider the upcoming ruling needed to approve the takeover of **Shaw Communications**.

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