Why Telus Corporation Is Your Best Short-Term Option in the New Pick and Pay World.

Description

It has been less than a week since the CRTC released its landmark Pick and Pay cable service initiative to the Canadian public. This ruling will significantly alter the telecommunications landscape, while balancing the changing viewing habits of Canadians. For the most part, consumers who have been promised more choice in the future have applauded the decision. However, telecoms, content providers, and investors are concerned about their futures.

What sets Canada apart from other nations is that so much of its television programming is both produced and broadcasted by cable companies. That is with the exception of **Telus Corporation** (TSX:T)(NYSE:TU), which might just be the strongest bet for investors in the early stages of the Pick and Pay world.

Pick and pay and pay and pay

The new regulations from the CRTC stipulate that cable providers must now offer a basic package that costs no more than $25.00 per month. It must include all local and regional stations, CPAC (plus its provincial counterpart), APTN, provincial education channels, and community channels. For Telus, this new basic package price will not be much of a stretch, as its current “basic” package already costs $29.00 for 34 channels, with 16 theme packs and 100 pick and pay channels available.

All remaining channels will then be offered either individually or through small (five to 10 channel) bundles at a “reasonable price.” This will inevitably lead to the death of smaller niche channels, but Telus shouldn’t be affected, as many of these fringe channels only survive through conventional bundling.

Redistribution of revenues

As of this moment the vast majority of the 14 million homes in Canada still pay for conventional television services, but we are entering a generation with different tastes and viewing habits. The emergence of **Netflix** and similar Internet streaming services has shifted how a growing number of people consume media content. But this reliance of consumption through the Internet comes at a price, and Telus and the other telecoms secretly welcome the new found dependency on the Internet.

The belief among many is that all of the telecoms will simply take any lost television revenues and make up for it with higher Internet prices, or more aggressive data-cap penalties. Last month Telus ended its long-run offering of unlimited home Internet data and introduced capped data packages, with fines up to $75.00 for exceeding your monthly plan. Telus justifies this by stating that the 5% of customers that make up the heaviest users consume 25% of the data on the network.

With the shift to watching TV and movies online, these ratios will only grow higher, as an hour of HD video typically consumes 2.5GB of data usage. This increased dependency on streaming will push the existing national infrastructure to its limits, which will require increased monthly prices to upgrade and maintain. Telus has been one of the few companies to be very proactive in its attempts to upgrade its network in western Canada to fibre-optic to mitigate some of these issues.

Bundling your portfolio

We cannot forget that this new era of pick and pay isn't the only thing in Telus' favour. Its "free TV" with a three-year contract initiative has been very successful in many parts of Canada.

Not to be forgotten is Telus's wireless division, which last year became the second largest in the country in terms of subscribers.

Generally, Telus has received the CRTC's decision in a positive light, declaring it a "real win for Canadians." In the short term this deal has the possibility to turn Telus' stock into a real win for investors, as the drop in price to $42.08 opens up a good buying opportunity. Telus is generally seen as a stock that tracks upward at a slow and steady pace, making any sharp drop prime buying time. The average price target may only be set at $44.80, but this is offset by the dividend, which has an annualized payout of $1.60 with a yield of 3.8%.

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