



Why Rogers Communications Inc. and BCE Inc. Are Your Best Long-Term Options in the New Pick and Pay World

Description

With the new CRTC pick-and-pay regulations for television service providers now a reality, investors are left wondering how to adjust their long-term strategies in the Canadian telecom market. Some companies, such as **Telus Corporation**, are poised to see some short-term gains in the momentum of its stock because of how the company is designed.

Other companies like **Rogers Communications Inc.** ([TSX:RCI.B](#))([NYSE:RCI](#)) and **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)) will take some time to see some positive results from this apparently consumer-friendly mandate from the CRTC. Both have similar structures, with cable, Internet, and wireless services coupled with production of TV content and joint ownership of several major sports franchises. Going forward, it is expected that both of these companies will follow a similar path.

On the surface, the new pick-and-pay cable model appears to favour the average consumer, with a \$25 basic package coupled with the ability to choose individual channels or small “reasonably priced bundles.” However, this new model might have very little effect on the bottom line of telecoms in the long run.

The language used by the CRTC allows telecoms to continue to create theme packs alongside pick-and-pay bundles. The deciding factor for consumers will depend on how much the telecoms opt to charge for the individual channels, which, according to insider reports, will be full market prices. This opens up the option for Rogers or BCE to continue their practice of bundling by offering discounted rates on popular channels, while adding in less popular channels that are owned by the respective telecom.

Sim-sub retaliation

When we look at the mandatory \$25.00 per month basic package, we see one segment of the “dial” that is missing: American networks. The CRTC included these networks in the “may-be-included” portion of the basic bundle and not as a mandatory inclusion. Rogers and BCE could use this loophole to bring about a limited version of its dream of pushing U.S. networks out of the country.

The issue has to do with advertising. For example, Modern Family broadcasts in the U.S. on ABC, but in Canada, it is shown on City TV. The commercials from the U.S. feed are replaced by a process called sim-subbing to the same ones advertisers paid to have shown on City TV. This is the same issue being fought between consumers and BCE when it comes to Super Bowl commercials. The telecoms believe that if they have the rights to broadcast a show in Canada, it is entitled to the first run of advertising revenues.

Take me home to the ball game

Another advantage both Rogers and BCE have at their disposal is their control over the sports broadcasting market in Canada. This control will mitigate some of the upcoming losses from the pick-and-pay model. The majority of sports fans still prefer to watch games live, but will now have to shoulder a greater share of the cost to broadcast major sports. This is because sports coverage is the most expensive portion of the television landscape to produce and broadcast.

The end of Corus Entertainment

While some of the under-performing channels produced by Rogers and BCE will fall to the wayside, this could open up the opportunity to acquire additional successful channels from independent producers. One example is **Corus Entertainment Inc.**, which generates the vast majority of its revenues from three channels: YTV, Teletoon, and W Network. Following the CRTC announcement, Corus' shares fell by 11%, which was the largest single day loss in 14 years, making it susceptible to a takeover from one the four national telecoms.

The Internet to the rescue

Many believe that any losses Rogers and BCE incur from their cable division will simply be made up by increasing Internet prices or imposing stricter fines for exceeding data caps. This is the ultimate goal these companies were hoping for with the respective launches of the ShowMi and Encore streaming services. The hope is that it would appease cord cutters, while simultaneously reaping revenues from higher Internet traffic.

The new pick-and-pay model won't be rolled out until January 2017, leaving investors plenty of time to decide their best strategies going forward.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:RCI (Rogers Communications Inc.)
3. TSX:BCE (BCE Inc.)

4. TSX:CJR.B (Corus Entertainment Inc.)
5. TSX:RCI.B (Rogers Communications Inc.)

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