



# Quant Insights Sectors

# NOV

## At a glance

- Canadian telecoms are in the midst of a price disruption. We tend to like these firms in our Canadian and All Country low volatility portfolios, let's find out why but first lets review what's been happening.
- Rogers started the ball rolling by launching a \$75 plan with unlimited data. They were quickly followed by Telus and Bell. Canadian telecom stocks fell on the news.
- Bad news: Unlimited plans mean no overage charges (accounts for 5-6% of Rogers wireless revenues). Increased competitiveness in the industry could also continue to push prices down.
- Good news: New plans have higher fees and less embedded device subsidies than the current Canadian average. So revenues could rise if these plans become more popular.
- Outlook: This should be net positive for the industry, but there will be an adjustment period.

## Further industry insights

The average billing per user (ABPU) per month in Canada is around \$65 and legacy wireless plans include significant device subsidies. The higher priced unlimited \$75+ plans are equivalent to an ABPU per month of \$90 or more if clients opt for new phones with lower subsidies. And while revenues from data overages (about \$400 million per year for Rogers) will be greatly reduced, call center costs will also fall because many of the calls handled are about overage charges.

Key risks for the industry over the next 3 years.

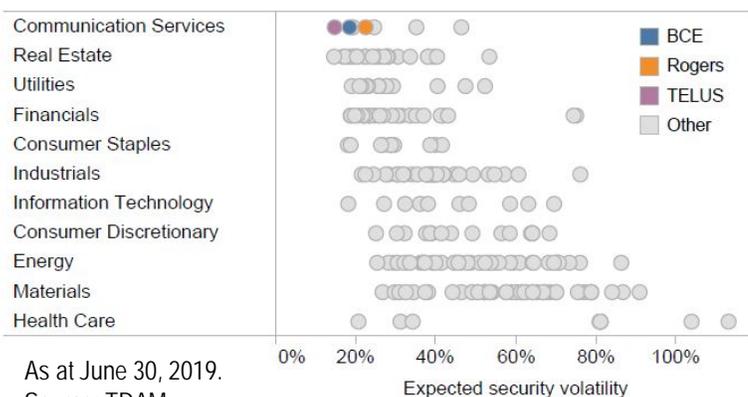
- Wireless Review is expected in 2020. Canadian Radio-television and Telecommunications Commission (CRTC), the Canadian telecom regulator, has stated that it is its "preliminary view" to allow mobile virtual network operators (MVNOs) to operate in Canada, opening a door for new entrants in the wireless industry.
- CRTC's recent decision to reduce the federally regulated wholesale broadband prices.
- Small players like Freedom and Videotron are increasingly winning the marginal buyer. They currently win about 25% of new customers.
- In 2020 there will be the 5G spectrum auction which could lead to a bidding war and therefore could increase leverage in the industry.

## Canadian telecoms for low volatility investing

As a near oligopoly that is protected from foreign competition, Rogers, Telus and Bell Canada Enterprises (BCE) stand out as stable assets within the Canadian market.

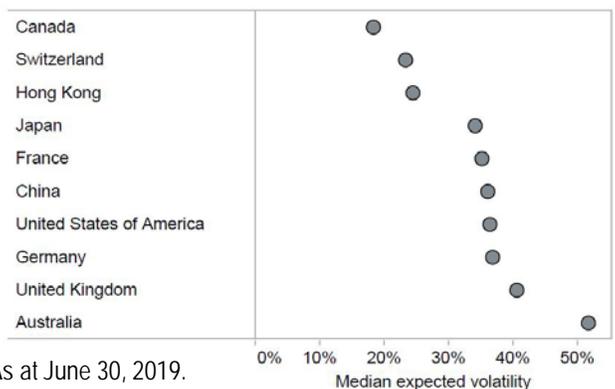
The telecom industry in Canada continues to be more stable than its foreign peers.

The S&P/TSX index constituents' expected volatility per sector



As at June 30, 2019. Source: TDAM.

Median expected volatility of telecommunications firms in major markets grouped by country in the ACWI universe



As at June 30, 2019. Source: TDAM.

## The Canadian telecom sector remains a safe investment and one of our preferred industries despite ongoing changes and new risks

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