

DBRS Canada Newsletter

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CABLE VS. TELECOM: A WAR OF INDUSTRIES AND A BATTLE FOR SERVICES

The cable and telecom industries, once distant competitors, now find themselves battling for the same customers, with both camps vying to offer the essential “quadruple-play” of voice, video, high-speed Internet and wireless services. This is leading to a convergence in the business profiles of these two industries, and ultimately, the new competition benefits the consumer.

Over the last decade, cable companies have enhanced their networks, allowing them to improve their balance sheets. They have been unlocking the inherent operating leverage that their networks provide by offering more services over their household connections while at the same time reducing financial leverage – measured by DBRS using a ratio of total debt-to-EBITDA. While the telcos, too, have been investing in their networks, their balance sheets have also improved, but from already strong levels. DBRS notes that the average leverage ratio of Canadian cable companies is currently 2.08, down from 5.09 in the year 2000, while the average leverage ratio of Canadian telco companies is 1.43, down from 2.13 in 2000.

The improved business risk profiles and greater financial prudence seen in recent years among the major cable operators in Canada, such as Rogers Communications Inc., Shaw Communications Inc., Cogeco Cable Inc. and Vidéotron Ltée, have been the drivers behind the rise in this sector’s industry credit rating to the BBB level. This stands in contrast to the telecom sector, which has seen its industry rating weaken from the AA level prior to the de-regulation of long-distance services in the 1990s to today’s average A (low) rating, with essentially all services de-regulated as a result of established competition.

DBRS believes that over the next five years, further rating improvement is possible for the Canadian cable industry, while the telcos could either stay at A (low) or converge with their cable counterparts at BBB (high).

DBRS expects that both of these industries will continue to strive to better serve their customers by improving their networks with the latest technologies and offering faster and better services. The cable and telecom industries are expected to continue to compete aggressively to wrest market share away from the other. However, in DBRS’s view, this battle is more like a tug-of-war, rather than the binary consensus view held early last decade that there could only be one winner and one loser.

With the cable and telecom fibre backbone networks enhanced by advances in IP technology, an operator’s capability to deliver three of the four quadruple-play services (voice, video, high-speed Internet, wireless) can be defined by its last mile technology and connection. The speed and reliability of this connection allows the operator to offer its subscribers faster Internet download and upload speeds, better home phone service and high-quality video services such as HDTV. On the wireless side, Canadian wireless carriers have been vigorously upgrading their networks to offer subscribers higher data speeds and capabilities for today’s bandwidth-hungry smart phones. While the telcos generally already have wireless operations in place, cable operators such as Vidéotron – and possibly Shaw – are just beginning to launch wireless services. DBRS notes that Rogers has always had a strong position in the Canadian wireless market and today uses this service as a major part of its quadruple play bundle.

DBRS is of the opinion that despite the fierce battle for subscribers and market share that will likely continue to be waged between the cable and telecom industries, neither of these competitors is likely to lose the war. In general, DBRS expects these industries to be healthy duopolies going forward.

DBRS will soon publish a short study on the battle of technologies between the cable and telecom operators within Canada and the United States. It will briefly discuss DOCSIS 3.0, Fibre-to-the-node (FTTN), and Fibre-to-the-home (FTTH) technologies, with a look at the different deployment strategies and progress from major players in the North American market. If you are interested in receiving this study, please contact us at info@dbrs.com.

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