BCE's Growth Is Poised to Slow Amid Antitrust Worries

By Hugo Miller on September 12, 2012
Bloomberg Business Week

BCE Inc. (BCE) is facing limits to a growth strategy that spawned almost $8 billion in takeovers since 2010 and helped Canada's biggest broadcaster outperform the Standard & Poor's/TSX composite index 22-fold.

Chief Executive Officer George Cope had to defend his proposed C$3 billion ($3.1 billion) purchase of Astral Media Inc. (ACM/A) to Canada's regulator this week amid criticism from competitors and consumer-lobby groups BCE has grown too large. Montreal-based BCE's expansion may slow because there are fewer assets left to buy, even if the Canadian Radio-television Telecommunications Commission endorses the Astral deal, said ***Neeraj Monga***, an analyst at ***Veritas Investment Research*** in Toronto.

"Already the public is complaining about media concentration in Canada, and to that extent, I don't think there are more media deals down the line for BCE along the lines of Astral," ***Monga***, who rates BCE a sell, said in a telephone interview.

Cope has been tapping near-record low borrowing costs to buy media companies and entice Canadians to spend more on programming for smartphones, tablets, computers and TVs.

Since the collapse of a $52-billion buyout of BCE in December 2008 by Ontario Teachers' Pension Plan and a group of U.S. private-equity firms, the stock has climbed steadily. Since Cope announced the $3 billion cash-and-debt acquisition of broadcaster CTV on Sept. 10, 2010, BCE has risen about 34 percent while the S&P index of Toronto-listed stocks has climbed just 1.7 percent.

"I think it's running out of steam," said ***Monga***.

Expensive Stock

After completing the CTV deal, BCE teamed up with rival Rogers Communications Inc. (RCI/B) in December to buy a controlling stake in Maple Leaf Sports & Entertainment Ltd. for $1.3 billion, acquiring the pro sports franchises Toronto Maple Leafs and Toronto Raptors. Its agreement in March to buy Astral, if successful, would arm BCE with 22 new television channels including MusiquePlus and Super Ecran to challenge its Montreal-based rival Quebecor Inc. (QBR/B)

Analysts have grown more skeptical of the company's strategy as its stock has become more expensive. Thirty-seven percent of analysts rated BCE a buy in September 2010, and none gave it a sell, according to data compiled by Bloomberg. Buy ratings now represent 23 percent of analysts who track the stock, and 9 percent give it a sell.

'Expensive Side'

BCE rose 0.6 percent today to C$43.96 at 4 p.m. in Toronto.

"It's on the expensive side relative to the growth profile of the company," said Jeff Fan, an analyst at Scotia Capital in Toronto, who rates BCE a hold. While he declined to predict whether or not the Astral deal will be rejected, Fan said BCE needs Astral to keep its steady dividend payout policy.

“Without Astral, it may be more of a challenge for BCE to maintain its 5-percent dividend growth,” Fan said.

Competitors such as Quebecor, which is BCE’s biggest rival in French-speaking Quebec, where Astral is based, say the Astral deal could muscle out broadcasters like its TVA sports channel and block them from carrying some sports events.

“If approved, this deal will be a point of no return for the future of telecom and broadcasting in Canada,” Quebecor CEO Pierre Karl Peladeau said at the regulatory hearings in Montreal yesterday. “No other company would be able to compete with the power of Bell,” as BCE is known.

‘Full Confidence’

Cope has dismissed the charge from Quebecor, saying two days ago at the same hearings that Astral-BCE’s combined share would still only account for about 24 percent of French-language viewership in Canada, 6 percentage points below Quebecor’s. Its share of the English-language market would be 33.5 percent, below a regulatory threshold of 35 percent, Cope said.

Buying Astral “gives us a portfolio in Quebec to compete with Quebecor,” Cope said at a conference in Toronto yesterday.“They’re obviously not happy about that and are spending a lot of money. The more our competitors spend, the more I know it must have been a brilliant acquisition idea because they sure are upset about it.” He added he has “full confidence” the transaction will close.

Mark Langton, a BCE spokesman said that opposition to this deal shouldn’t necessarily preclude the company conceiving acquisitions in the future. BCE would not have gone ahead with the Astral purchase if the company wasn’t confident it met CRTC rules, he said.

9,600 Letters

Ken Engelhart, Rogers’ head of regulatory affairs, said today at the hearings that “Bell is already too big and powerful.” He urged the CRTC to order Bell to sell its English-language services to dilute its control of Canadian programming.

“The burden of proof” that the deal is in the public’s interest “rests squarely with Astral and BCE,” CRTC Chairman Jean-Pierre Blais said in his opening remarks at this week’s hearing. The regulator received 9,600 letters or comments about the deal, said Blais. He has the power to reject or approve the acquisition or prescribe new conditions for the deal.

Telus Corp. (T), the Vancouver-based company that competes with Bell in selling mobile-phone, Internet and cable-TV subscriptions, has expressed concern that BCE will be in a powerful position to charge unfair prices for its content.

The Ottawa-based Public Interest Advocacy Centre joined Quebecor, Telus and individual Canadians who’ve written to the CRTC to express their concern about the deal.

If the purchase goes ahead, Bell will force higher prices and less choice on their customers and their competitor’s customers, the consumer group’s counsel Janet Lo said last month.

Divest Stations

Cope this week announced plans to divest 10 radio stations to try and appease critics, while at the same time saying he will introduce an Internet-based film and television service to compete with Los Gatos, California-based Netflix Inc. (NFLX)

While BCE shares surpassed the performance of the Toronto Stock Exchange and Rogers, Canada's largest wireless operator, they still lag behind Telus, which has been pumping hundreds of millions of dollars into building faster wireless phone and fixed-line networks for Internet protocol television.

"BCE is trying to answer to multiple taskmasters by giving dividend increases to the market, chasing IPTV to go after the next growth market and making all these acquisitions," said ***Monga***. "It's just a very tall order."

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