

This is Exhibit "27" referred to in  
the Affidavit of Anthony Griffin  
sworn before me this 4<sup>th</sup> day  
of June, 2016

A handwritten signature in black ink, consisting of a large, stylized 'R' followed by a horizontal line and a small flourish.

---

A Commissioner, etc.

# Wireless wholesale pricing: What to expect

## Thought of the week

As the government seeks to increase wireless competition, it has two main policy levers to support new entrants: 1) licensing of additional spectrum (under the jurisdiction of Industry Canada); and 2) wholesale pricing (under the jurisdiction of the CRTC). We expect that both policy tools will be used. In our [May 6 weekly](#), we discussed the likelihood that the government will make additional AWS spectrum available to new entrants, presumably with a significant LTE build-out commitment. This is what we expect to hear about in Monday's Industry Canada announcement. If the government plans to provide help on wholesale roaming rates beyond (or in advance of) the CRTC review process, this in our view would be the logical time to communicate this (i.e., in conjunction with a spectrum licensing process). Conversely, we would take silence on the roaming issue as confirmation that the government will likely leave the roaming question to the CRTC.

Whatever the timing, we do expect *some* further reductions in wholesale rates (below the pending retail cap) – and potentially a change in terms to enable “in-market roaming” – so that the incumbent network coverage and quality advantage is reduced (and the new entrant business case is improved) substantially. We discuss the potential impact on ARPU and present detailed valuation sensitivity calculations for the three incumbents (page 6).

## What's new this week

**Key news:** Industry Canada James Moore will make an announcement on July 7 – 9:30AM on wireless competition\*\*\* Wind Mobile expands its Ontario wireless network to include Brantford and Paris \*\*\* Verizon Wireless might bring LTE data to its prepaid customers starting July 17\*\*\* Cogeco launches two new unlimited internet packages for its Quebec and Ontario customers\*\*\* 21% of Canadian households were cellphone-only as of December 2013\*\*\* T-Mobile US meets its mid-year goal of covering 230mn POPs with its LTE network\*\*\* Dish Network might have been a bidder for DirecTV\*\*\* Bell to implement a one-time 4.95 fee for new SIM cards on postpaid accounts, effective July 3\*\*\* Inmobiliaria Carso (Carlos Slim's holding company) will buy AT&T's 8.3% stake in America Movil for \$5.6bn\*\*\* Aereo halts its operations on Saturday, saying it is only temporary

## Key events:

**July 7 – 9:30AM ET:** Industry Minister James Moore to make announcement on wireless competition

**Earnings calendar:** Cogeco July 9; Corus July 10; Comcast July 22; Verizon July 22; AT&T July 23; Rogers July 24; T-Mobile US July 31; Time Warner Cable July 31; Bell Aliant Aug. 1; Manitoba Tel. Aug. 1 (est.); Frontier Comm. Aug. 5; CenturyLink Aug. 6; TELUS Aug. 7; BCE Aug. 7; Quebecor Aug. 8 (est.)

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Refer to important disclosures on page 24 to 26. Analyst Certification on Page 22. Price Objective Basis/Risk on page 20. Link to Definitions on page 22.11403508  
greg@westfacecapital.com Greg Boland 07/07/14 02:46:43 PM West Face Capital Inc. {Asset Mgmt.}

## Industry Overview

Equity | North America | Telecommunications  
06 July 2014

**Bank of America**  
**Merrill Lynch**

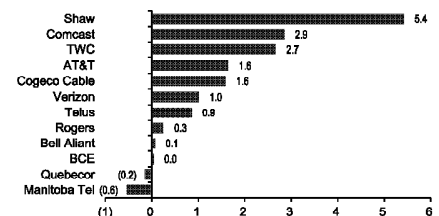
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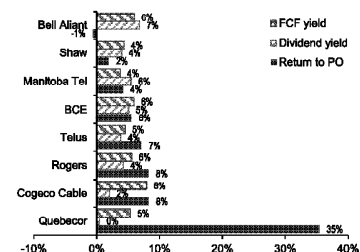
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Chart 1: 5-day price performance-as of 7/4/14



Source: BofA Merrill Lynch Global Research estimates

Chart 2: Projected return to PO-as of 7/4/14



Source: BofA Merrill Lynch Global Research estimates

## Thought of the week

### Wireless wholesale pricing: What to expect

Government has two main policy tools to support new entrants

As the government seeks to increase wireless competition, it has two main policy levers to support new entrants: 1) spectrum licensing (under the jurisdiction of Industry Canada); and 2) wholesale pricing (under the jurisdiction of the CRTC).

At the Telecom Summit conference, Wind's Tony Lacavera made the case for more spectrum to facilitate an LTE build-out; Quebecor CEO Pierre Dion said that discounted wholesale roaming rates would be the precondition for Quebecor to compete in wireless outside its home market.

**We expect that both will be used...**

In our May 6 note, [AWS-3: More spectrum potentially on the way](#), we discussed the likelihood that the government will make additional AWS spectrum available to new entrants, presumably with a significant LTE build-out commitment. We said then that we expected the government to move on this in the near future, and this would be the logical subject of Monday's policy announcement.

**...but the timing and extent of wholesale rate reduction is uncertain**

Detailed regulation on wholesale pricing is not the domain of Industry Canada but of the CRTC (and is now in the early stages of what promises to be a lengthy review process). However, it is possible that Industry Canada government could include broad provisions related to wholesale roaming (e.g. temporary discounts from regulated rates) as licence conditions for new spectrum. In our view, if the government believes low-cost roaming is critical -- and wants to communicate this view to the market -- a spectrum licensing announcement would be the obvious opportunity to do so. (Conversely, if Industry Canada were to initiate a spectrum licensing process and remain silent on the question of roaming rates, we would interpret that as a signal that the government would prefer to defer a decision on this question, or to leave it to the CRTC).

In this weekly, we take a closer look at the wholesale pricing question. We believe that regulated wholesale rates will be a fact of life in the Canadian market. We expect some further reductions in wholesale rates (below the pending retail cap) -- and potentially a change in terms to enable "in-market roaming" -- so that incumbent the incumbent network coverage and quality advantage is reduced.

Barring a surprise announcement, we consider it much less certain that we will see the deep wholesale rate cuts that Quebecor is seeking (i.e., to enable profitable resale during a multi-year network build-out, as we describe in our [June 19 note](#)), or that a decision will be reached as quickly as Quebecor would like.

## Key issues

### What is the government trying to achieve?

We see no wavering in the government's determination to have sustainable four-player competition in all regions, with the objective of increasing price competition. This situation now exists in Quebec, Manitoba and Saskatchewan (30% of Canada) but not in southern Ontario, Alberta and BC (50%), where new entrants lack quad-play or network-sharing advantages and have been unable to attract capital. Broadly speaking, we see the government increasing the level of regulatory asymmetry (e.g. preferential access to spectrum and incumbent networks) as needed to attract investment. At the same time, it has been firm in

its opposition to incumbent acquisitions of new entrant licences (which in turn has increased the required level of asymmetry needed to attract investment).

### **Are regulated wholesale rates inevitable?**

While regulated wholesale pricing is unusual in the context of global wireless, the government has already crossed this threshold with its legislated cap on roaming rates, now coming into effect. The government's intention is that this legislation will be temporary, until the CRTC's wholesale proceeding is complete. Meanwhile, the Competition Bureau recommended in May that:

*"...the CRTC adopt measures to address the incentives Canada's largest mobile wireless companies may have to raise their competitors' wholesale prices as these increases may be passed on to consumers. The Bureau's submission supports the establishment of regulatory measures if and where they are needed, to ensure that new entrants have access to the wholesale services they need to compete effectively in Canadian mobile wireless markets."*

With this background, we consider continuing wholesale rate regulation by the CRTC to be highly likely.

### **Will we see an MVNO regime?**

While European regulators have imposed MVNO deals as wireless merger remedies (in Austria, Ireland and now Germany), we think the likelihood of this outcome in Canada is virtually nil. Low MVNO rates are antithetical to facilities-based competition, in our view, and we believe this is well understood by the regulators. Quebecor has been very clear in our discussions with management that they do not want an MVNO regime. We note that the Competition Bureau's announcement, quoted above, refers specifically to pricing for wholesale services required by new entrants (as opposed to MVNOs). In a June 26 interview, CRTC Chair Jean-Pierre Blais (quoted below) also talked down the MVNO scenario.

### **How will wholesale pricing be determined?**

The pending caps on wholesale roaming rates will be set on a per-carrier basis at the trailing retail average per-unit price (with service revenues allocated between voice, messaging and data). This should enable Canada-wide new entrant pricing with manageable roaming costs – but not economical resale.

Based on historical precedent in the wireline segment, we expect that the CRTC wholesale cost proceeding will determine cost-based caps, with wholesale rates set at "Phase II" (long-run incremental) costs, plus a mark-up, which in the past has been up to 25%. This methodology is typically laborious, time-consuming and contentious.

### **Will regulated rates be at a significant discount to retail?**

Given the methodology (and the policy agenda), we would be very surprised if the CRTC review does not generate further wholesale roaming rates reductions below the legislated retail caps. However, it is unclear whether rates would be low enough to support profitable resale (which Quebecor is seeking), since 1) new entrant ARPU is invariably lower than incumbent ARPU, 2) increased competition would presumably reduce pricing, 3) per-unit data pricing is likely to decline quite rapidly in any case as data usage grows, and 4) CRTC Chair, Jean-Pierre Blais, spoke to the need for balance in a June 26 press interview:

*"There is a risk if you [have too many] competitors with a focus just on the retail price, you forget about the larger consumer experience," he said. "Having too*

*many competitors and unnaturally low prices could also mean that people aren't investing appropriately in their networks and therefore it may be a short gain for a long term pain."*

These comments again suggest that an MVNO regime is very unlikely.

We note that the Phase II costing methodology, which is similar to the TELRIC costing methodology used in the US, has generated relatively low unbundled wireline loop rental rates (typically \$10-\$15 per month; higher in rural areas). We would expect the incumbents to argue that the rural portions of their wireless networks have relatively high capital and operating costs and low traffic (implying a high unit cost).

### **Will the regulator expand roaming obligations?**

It is possible that the CRTC will consider a broader definition of roaming (expanded to include in-network roaming within the new entrant's network footprint) and a requirement for a seamless hand-off between incumbent and new entrant networks. This would enable new entrants to fall back on incumbent networks where they have coverage gaps (e.g. inside large buildings, which are difficult to serve with high-band spectrum) – not just for roaming beyond their coverage areas. This would essentially eliminate the network coverage differential between new entrant and incumbents.

### **How would the new entrant business case be affected?**

We believe that access to more spectrum would significantly improve the prospects for new entrant competition, with or without further roaming concessions; expanded access to roaming and lower roaming rates would help more. Additional spectrum should also eliminate the pressure for Wind to acquire Mobilicity's spectrum in order to build LTE.

In our view, low ARPU has been a severe handicap for Wind and Mobilicity to date. We attribute the weakness in their ARPU (~C\$30) primarily to: 1) poor urban network coverage, particularly indoors, due to high-band spectrum and relatively low cell site density; 2) the lack of affordable roaming outside large cities; 3) the lack of LTE; and 4) not having the iPhone.

An interesting comparison is with Quebecor, which has suffered from disadvantages (3) and (4), but not (1) and (2), and has an ARPU of C\$40, in the Quebec market, which has generally lower ARPU.

We expect that a revitalized Wind with LTE and reduced roaming rates, including in-network roaming (but not deeply discounted rates) would not suffer any of these disadvantages. We expect that its main priority would be to push ARPU higher – up to the Quebecor ~\$40 level – in order to improve its economics.

### **How would the incumbents be affected?**

Exhibits 1-3 (at the end of this section) show the incumbent valuation sensitivities to our long-term wireless assumptions.

We believe the Quebec market indicates how incumbent pricing might respond. CRTC data for 2012 shows ARPU in Quebec to be 10% lower (C\$51.95) than the national average (C\$57.61) and ~20% lower than the Ontario/BC/Alberta average of C\$64.25. We note also that current incumbent pricing in Quebec is substantially lower than in those markets.

Competition is not the only reason for the Quebec ARPU discount (which was substantial even before the launch of wireless by Quebecor). We would not expect to see Ontario/BC/Alberta ARPU move rapidly down to the level we see in Quebec. But in our view it would be realistic to see downward pressure on incumbent ARPU (into the mid-50s), and upward movement in Wind's ARPU (to the low 40s – in line with Quebecor's current ARPU, or possibly higher), in other words, a dramatic reduction of the current 2:1 ARPU gap between incumbents and new entrants. This ARPU pressure for the incumbents would apply in the Wind coverage area only (~50% of Canada) in the medium term, unless the regulator were to embrace deep wholesale discounts that open up rural/small-town Canada (~20% of total population) to aggressive price competition.

We do not believe investors are generally expecting another round of AWS spectrum licensing to help stimulate new entrant LTE build-outs – or government action on wholesale wireless rates beyond or in advance of the CRTC review process. If we are correct in our assumptions about the contents of the July 7 announcement, the incumbent share price reaction is likely to be negative.

### How could the incumbents respond?

We expect the incumbents to appeal any CRTC decision that reduces wholesale rates. If the appeal results in delayed implementation, the final rates would normally be applied retroactively.

The incumbents are likely to challenge a wholesale pricing regime through a PR campaign, citing the risks of network underinvestment and job losses.

### What is the process?

Following a fact-finding exercise on mobile roaming in 2013, the CRTC initiated a proceeding under Telecom Notice of Consultation 2013-685 to determine whether there is "unjust discrimination: or "undue preference" in current wholesale roaming arrangements.

The CRTC is now conducting a wholesale wireless services review under Telecom Notice of Consultation CRTC 2014-76, with a public hearing scheduled for September 29. The objective of the proceeding is "to determine whether the wholesale wireless services market is sufficiently competitive, both now and in the future". The scope of the proceeding includes tower and site sharing, as well as wholesale roaming, and could be expanded to other wholesale mobile services.

Since wireless services are currently forborne (i.e., not subject to price regulation), the CRTC would have to conclude either that the market is not sufficiently competitive and thus must be re-regulated, or that there is undue preference or unjust discrimination under existing roaming arrangements in order to intervene. We expect there would then be a follow-up proceeding to establish wholesale rates. We expect this process would continue well into 1H15.

Quebecor is pressing the government to commit to a discounted roaming rate regime outside the ongoing CRTC process. We believe their objective is to have the regulatory clarity management has said is needed to commit to wireless expansion while Wind and Mobilicity are still available.

Industry Canada has said that it will make an announcement related to wireless competition on Monday July 7 at 9:30am. As we have written previously, we believe the next step for Industry Canada would be to allocate additional AWS spectrum to new entrants. This would normally start with a notice of consultation.

If the government is to intervene further on roaming rates, separately from the CRTC proceeding (as Quebecor wants), this would be the logical time for such an intervention: spectrum awarded to new entrants might come with a build-out commitment, and a time-limited roaming discount. If Monday's announcement is silent on roaming rates, then we would assume that the government plans to leave this issue for the CRTC to resolve.

#### Exhibit 1: BCE valuation sensitivities to long term (2025) wireless assumptions

BCE	Service Sub mkt			EBITDA Revenue		DCF value	Implied return	Opex/sub (C\$/mo)
	ARPU	margin	share	CAGR	CAGR			
2013	\$67.81	43.6%	27.6%	13-25E	13-25E	C\$/sh		32.58
2025E:								
Bull case	\$58.50	46.0%	30.0%	4.0%	3.5%	\$52.75	14%	31.59
Upside	\$56.50	45.5%	29.0%	3.3%	3.0%	\$50.50	9%	30.79
Base case	\$55.00	45.0%	28.0%	2.7%	2.5%	\$48.75	6%	30.25
Downside	\$52.50	44.0%	27.0%	1.8%	1.8%	\$46.25	0%	29.40
Bear case	\$50.00	42.0%	26.0%	0.7%	1.0%	\$43.25	(6%)	29.00
Sensitivity	\$0.42	\$0.77	\$0.30					

Source: BofA Merrill Lynch Global Research estimates based on our company model. In our base case, new entrant market share in 2025 is 7% (ex QBR, not coverage-adjusted, or 2.7mn of 39.5mn total subs). Sensitivities are share value impacts of 1pt change in assumptions. In each case, we use a 7.0% WACC, and 0.0% terminal growth rate, with other assumptions as in our SoIP table, including 100% wireless penetration in 2025.

#### Exhibit 2: RCI valuation sensitivities to long term (2025) wireless assumptions

RCI	Service Sub mkt			EBITDA Revenue		DCF value	Implied return	Opex/sub (C\$/mo)
	ARPU	margin	share	CAGR	CAGR			
2013	\$59.58	46.8%	33.7%	13-25E	13-25E	C\$/sh		31.71
2025E:								
Bull case	\$58.50	47.0%	30.0%	1.7%	1.7%	\$51.50	24%	31.01
Upside	\$56.50	46.0%	29.0%	1.0%	1.1%	\$48.00	16%	30.51
Base case	\$55.00	45.0%	28.0%	0.3%	0.6%	\$44.75	8%	30.25
Downside	\$52.50	44.0%	27.0%	(0.6%)	(0.1%)	\$41.25	0%	29.40
Bear case	\$50.00	42.0%	26.0%	(1.6%)	(0.8%)	\$37.00	(10%)	29.00
Sensitivity	\$0.61	\$1.08	\$1.12					

Source: BofA Merrill Lynch Global Research estimates based on our company model. In our base case, new entrant market share in 2025 is 7% (ex QBR, not coverage-adjusted, or 2.7mn of 39.5mn total subs). Sensitivities are share value impacts of 1pt change in assumptions. In each case, we use a 7.0% WACC, and 0.0% terminal growth rate, with other assumptions as in our SoIP table, including 100% wireless penetration in 2025.

#### Exhibit 3: TELUS valuation sensitivities to long term (2025) wireless assumptions

TELUS	Service Sub mkt			EBITDA Revenue		DCF value	Implied return	Opex/sub (C\$/mo)
	ARPU	margin	share	CAGR	CAGR			
2013	\$59.89	46.7%	28.6%	13-25E	13-25E	C\$/sh		31.92
2025E:								
Bull case	\$58.50	46.5%	30.0%	3.1%	3.1%	\$46.25	20%	31.30
Upside	\$56.50	45.5%	29.0%	2.3%	2.6%	\$43.25	12%	30.79
Base case	\$55.00	45.0%	28.0%	1.7%	2.1%	\$41.25	7%	30.25
Downside	\$52.50	44.0%	27.0%	0.9%	1.4%	\$38.25	(0%)	29.40
Bear case	\$50.00	42.0%	26.0%	(0.2%)	0.7%	\$34.75	(9%)	29.00
Sensitivity	\$0.52	\$0.85	\$0.95					

Source: BofA Merrill Lynch Global Research estimates based on our company model. In our base case, new entrant market share in 2025 is 7% (ex QBR, not coverage-adjusted, or 2.7mn of 39.5mn total subs). Sensitivities are share value impacts of 1pt change in assumptions. In each case, we use a 7.0% WACC, and 0.0% terminal growth rate, with other assumptions as in our SoIP table, including 100% wireless penetration in 2025.

## Earnings calendar

Table 1: Upcoming earnings calendar

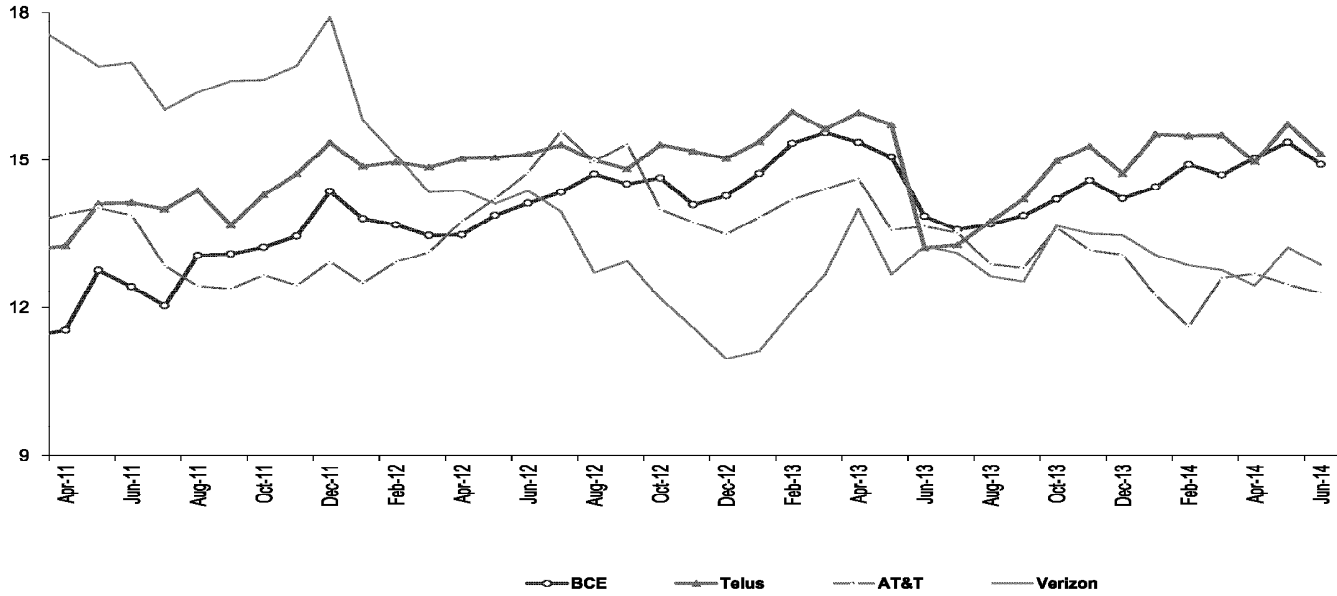
Company	Report date	Report time	Conference call detail (All eastern time)
Shaw	26-Jun	BMO	4:30 pm at 416.204.9498 (passcode: 8066288); replay at 647.436.0148 (passcode: 8066288)
Cogeco Cable	9-Jul	AMC	July 10 11:00 am at 416.640.5926 (passcode: 2083261); replay at 647.436.0148 (2083261)
Corus Entertainment	10-Jul	BMO	3:00 pm at 1.800.734.8582 or 1.416.981.9038 (passcode: NA)
Verizon	22-Jul	BMO	8:30 am at Details TBA
AT&T	23-Jul	AMC	TBA
Rogers	24-Jul	BMO	8:30 am at 416.644.3414 (passcode: N/A); replay at 416.640.1917 (passcode: 4686706#)
T-Mobile US Inc.	31-Jul	BMO	TBA
Time Warner Cable	31-Jul	BMO	TBA
Bell Aliant	1-Aug	BMO	8:00 am at 416.340.2217 (passcode: 6196776); replay at 905.694.9451 (passcode: 8669410)
Telus	7-Aug	BMO	Details TBA
BCE	7-Aug	BMO	Details TBA

Source: Bloomberg and company reports



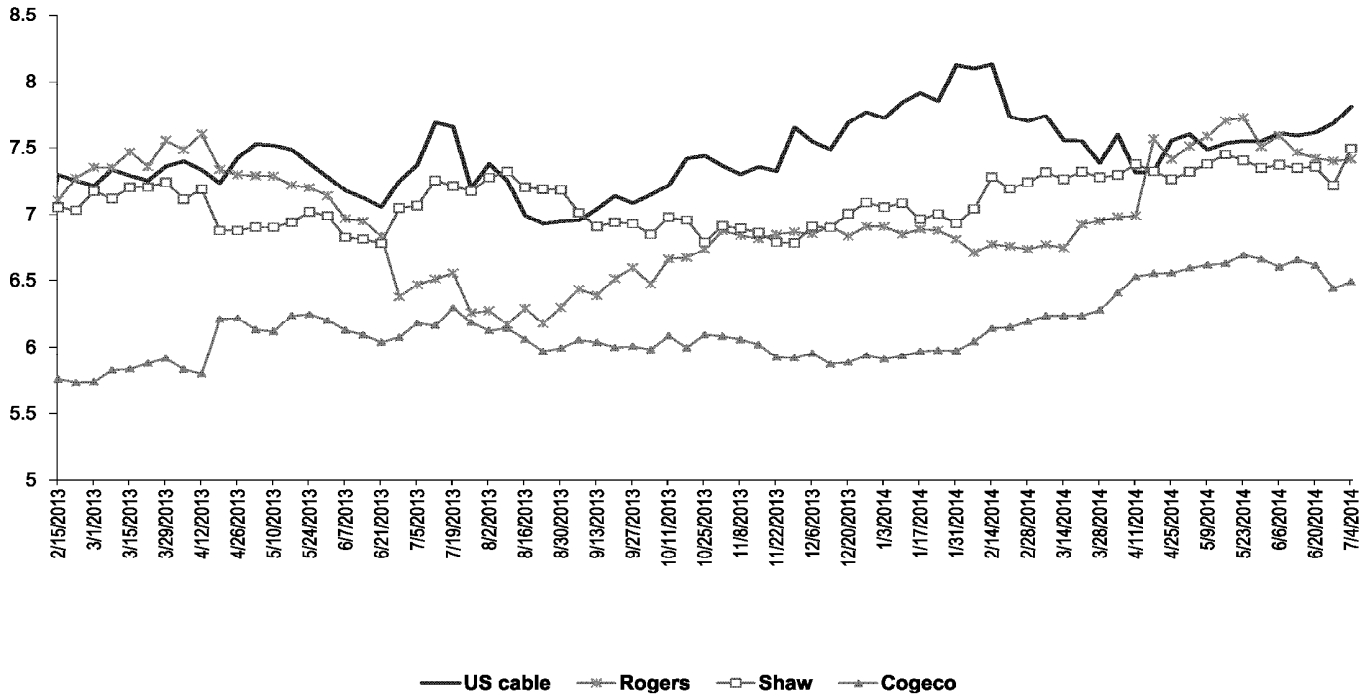
# The week in charts

Chart 3: Historical telco P/E forward multiples



Source: Bloomberg, BofA Merrill Lynch Global Research

Chart 4: Historical cable EV/EBITDA forward multiples



Source: BofA Merrill Lynch Global Research

06 July 2014

## The week in numbers

Table 2: Trading multiples

Company	BofAML Symbol	BofAML QRQ	BofAML rating	4-Jul Latest closing	Mkt cap (\$bn)	Tax-normalized												Net Debt/ EBITDA 2014E
						P/E				FCF yield				EV/EBITDA				
						2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	
<b>Canadian ILECs (C\$)</b>																		
BCE	YBCE	A-2-7	NEUTRAL	48.52	37.7	15.0x	14.9x	14.4x	5.9%	6.3%	6.9%	7.2x	7.0x	6.8x	4.8%	5.1%	5.4%	2.2x
Bell Aliant	YBA	B-3-8	UNDERPERFORM	27.81	6.3	17.2x	16.4x	15.7x	6.0%	6.4%	7.3%	7.8x	7.8x	7.7x	6.8%	6.8%	6.8%	2.9x
Manitoba Tel	YMBT	B-3-8	UNDERPERFORM	30.90	2.4	17.7x	16.4x	14.8x	3.7%	4.5%	5.2%	5.4x	5.2x	5.2x	5.5%	5.5%	5.5%	1.4x
Telus	YT	B-1-7	BUY	39.93	24.4	16.1x	14.4x	13.6x	4.6%	5.8%	6.4%	7.9x	7.6x	7.2x	3.9%	4.3%	4.7%	2.2x
<b>Canadian cable &amp; wireless (C\$)</b>																		
Rogers	YRCIB	B-1-7	BUY	43.02	22.1	14.0x	13.9x	13.0x	5.6%	6.2%	6.6%	7.4x	7.4x	7.3x	4.3%	4.4%	4.6%	3.0x
Shaw	YSJRB	C-2-7	NEUTRAL	27.62	12.8	14.2x	14.2x	13.9x	5.2%	5.2%	5.5%	7.4x	7.4x	7.3x	4.2%	4.2%	5.0%	2.0x
Cogeco Cable	YCCA	C-1-7	BUY	58.93	2.9	12.2x	12.2x	12.9x	8.4%	8.4%	8.3%	6.5x	6.5x	6.5x	2.2%	2.2%	2.3%	3.2x
Quebecor	YOBRB	B-1-7	BUY	25.93	3.2	13.3x	12.5x	11.1x	5.4%	9.8%	10.5%	6.1x	6.0x	6.0x	0.4%	0.5%	0.5%	3.2x
<b>US conglomerates (US\$)</b>																		
AT&T	T	A-2-7	NEUTRAL	35.84	208.1	13.4x	12.1x	11.1x	6.8%	6.1%	7.3%	7.3x	6.9x	6.7x	4.8%	4.9%	5.0%	2.0x
Verizon	VZ	A-1-7	BUY	49.71	140.9	13.6x	12.6x	11.8x	7.8%	8.1%	7.7%	8.3x	8.0x	7.8x	4.3%	4.4%	4.5%	2.3x
<b>US ILECs (US\$)</b>																		
CenturyLink	CTL	B-1-7	BUY	36.08	20.1	13.9x	14.0x	13.4x	11.8%	9.9%	9.7%	5.7x	5.8x	5.7x	6.0%	6.0%	6.0%	2.9x
Cincinnati Bell	CBB	C-2-9	NEUTRAL	4.10	0.8	6.8x	6.2x	5.5x	18.7%	23.4%	29.7%	7.9x	8.1x	8.1x				5.5x
Frontier	FTR	B-2-7	NEUTRAL	5.85	5.8	NM	NM	NM	8.1%	10.9%	10.8%	6.8x	6.8x	6.9x	6.8%	6.8%	6.8%	4.0x
Windstream	WIN	C-2-7	NEUTRAL	9.97	6.0	NM	19.2x	NM	12.4%	11.8%	NM	6.6x	6.6x	NM	10.0%	10.0%		3.9x
<b>US wireless (US\$)</b>																		
Sprint/Nextel	S	C-3-9	UNDERPERFORM	8.60	34.5	NM	NM	NM	NM	NM	0.5%	9.5x	8.9x	8.6x				4.5x
T-Mobile US	TMUS	C-3-9	UNDERPERFORM	33.33	26.8	NM	NM	13.8x	NM	5.2%	6.4%	8.6x	6.8x	5.9x				3.7x
<b>US cable (US\$)</b>																		
Comcast	CMCSA	A-1-7	BUY	54.90	141.8	19.0x	16.7x	14.6x	4.8%	6.0%	7.3%	8.2x	7.6x	7.2x	1.6%	1.8%	2.1%	2.0x
Cablevision	CVC	C-1-7	BUY	18.29	4.7	NM	NM	NM	NM	NM	NM	7.7x	7.5x	7.4x	3.3%	3.3%	3.3%	5.0x
<b>US DBS (US\$)</b>																		
DISH	DISH	B-3-9	UNDERPERFORM	66.37	30.3	NM	NM	NM	2.7%	2.0%	2.2%	14.5x	14.4x	14.8x				3.9x

Source: BofA Merrill Lynch Global Research estimates

Table 3: Trading multiples (long form)

Company	4-Jul Latest closing	P/E				Tax-normalized FCF yield				EV/FCF				Net Debt/ EBITDA 2014E
		2017E	2018E	2019E	2020E	2017E	2018E	2019E	2020E	2017E	2018E	2019E	2020E	
<b>Canadian ILECs (C\$)</b>														
BCE	48.52	13.9x	13.4x	12.9x	12.4x	7.0%	7.3%	7.6%	7.9%	12.6x	12.3x	11.9x	11.6x	2.2x
Bell Aliant	27.81	15.0x	14.4x	13.8x	13.3x	7.3%	7.3%	7.2%	7.2%	12.8x	12.7x	12.7x	12.4x	2.9x
Manitoba Tel	30.90	14.1x	13.5x	12.9x	12.3x	5.5%	5.8%	6.1%	6.3%	12.6x	12.3x	11.9x	10.8x	1.4x
Telus	39.93	12.8x	12.2x	11.6x	11.1x	6.9%	7.4%	8.0%	8.4%	13.0x	12.3x	11.7x	11.2x	2.2x
<b>Canadian cable &amp; wireless (C\$)</b>														
Rogers	43.02	12.3x	11.5x	10.8x	10.1x	7.6%	8.2%	8.8%	9.5%	11.2x	10.6x	10.1x	9.5x	3.0x
Shaw	27.62	13.2x	12.5x	11.7x	11.0x	5.9%	6.4%	7.0%	7.7%	12.0x	11.5x	10.9x	10.3x	2.0x
Cogeco Cable	58.93	13.2x	12.6x	12.0x	11.2x	8.6%	9.1%	9.6%	8.9%	11.2x	10.4x	9.6x	9.5x	3.2x
Quebecor	25.93	10.1x	9.2x	8.4x	7.4x	11.1%	11.8%	12.6%	13.9%	9.0x	8.6x	8.0x	7.3x	3.2x

Source: BofA Merrill Lynch Global Research estimates

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Table 4: 12-month forward P/E history

Company	Current	y/y change	6/14	5/14	4/14	3/14	2/14	1/14	12/13	11/13	10/13	9/13	8/13	7/13	6/13
<b>Canadian ILECs</b>															
BCE	15.0x	1.1x	14.9x	15.4x	15.0x	14.7x	14.9x	14.4x	14.2x	14.6x	14.2x	13.9x	13.7x	13.6x	13.8x
Bell Aliant	17.1x	-0.4x	16.8x	17.3x	16.4x	16.5x	16.4x	15.9x	16.5x	16.7x	16.9x	15.9x	16.4x	17.2x	17.5x
Manitoba Tel	17.7x	-5.3x	17.1x	17.9x	16.9x	17.1x	17.2x	16.9x	17.0x	17.0x	17.6x	20.0x	20.9x	21.6x	23.0x
Telus	16.0x	2.8x	16.1x	16.7x	15.0x	15.5x	15.5x	15.5x	14.7x	15.3x	15.0x	14.2x	13.7x	13.3x	13.2x
<b>Canadian cable &amp; wireless</b>															
Rogers	14.0x	1.5x	14.0x	14.3x	14.2x	14.9x	14.0x	15.3x	15.7x	15.3x	15.1x	14.0x	12.9x	12.6x	12.5x
Shaw	15.2x	0.6x	14.3x	14.2x	14.1x	14.1x	13.8x	13.4x	14.2x	13.5x	13.9x	13.5x	14.4x	14.6x	14.6x
Cogeco Cable	12.4x	2.6x	12.3x	13.1x	12.6x	12.0x	11.4x	10.7x	10.1x	10.1x	10.4x	10.3x	10.3x	10.7x	9.9x
Quebecor	13.3x	0.7x	12.8x	13.1x	13.0x	13.6x	12.5x	12.1x	13.6x	13.7x	13.5x	12.9x	12.0x	12.7x	12.7x
<b>US conglomerates</b>															
AT&T	13.3x	-0.3x	12.3x	12.5x	12.7x	12.6x	11.6x	12.2x	13.1x	13.2x	13.6x	12.8x	12.9x	13.5x	13.6x
Verizon	13.6x	0.4x	12.9x	13.2x	12.5x	12.8x	12.9x	13.1x	13.5x	13.5x	13.7x	12.5x	12.6x	13.1x	13.2x
<b>US ILECs</b>															
CenturyLink	11.8x	0.2x	11.8x	12.3x	11.4x	10.7x	10.2x	9.4x	10.4x	10.0x	11.0x	10.2x	10.8x	11.7x	11.5x
Cincinnati Bell	21.6x	5.5x	20.7x	20.8x	17.6x	18.2x	17.6x	18.2x	18.7x	16.8x	15.1x	14.3x	15.7x	18.2x	16.1x
Frontier	29.3x	10.8x	NM	NM	NM	NM	25.7x	24.0x	23.3x	23.0x	21.3x	19.9x	20.3x	20.1x	18.4x
Windstream	28.5x	7.6x	22.9x	22.7x	22.3x	21.0x	21.2x	20.5x	22.8x	22.8x	24.0x	22.2x	22.2x	22.8x	20.8x
<b>US wireless</b>															
Sprint Nextel	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
T-Mobile US	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
<b>US DBS</b>															
EchoStar	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	28.4x	26.3x	26.0x	25.6x	24.2x

Source: BofA Merrill Lynch Global Research estimates

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Table 5: Price Performance

Company	Last price	52-Week Range		Total Return (%)					
	7/4/14	High	Low	5D	1M	3M	6M	YTD	1Y
<b>Canadian ILECs (C\$)</b>				<b>0.3</b>	<b>(3.5)</b>	<b>3.7</b>	<b>8.8</b>	<b>8.6</b>	<b>20.8</b>
BCE	48.52	51.10	41.28	0.0	(3.3)	2.5	8.5	7.6	19.0
Bell Aliant	27.81	29.05	24.79	0.1	(2.0)	5.1	7.1	6.9	5.9
Manitoba Tel	30.90	36.16	28.15	(0.6)	(4.4)	3.0	5.6	6.3	(9.8)
Telus	39.93	42.40	30.37	0.9	(4.3)	5.3	10.2	10.8	30.5
<b>Canadian cable &amp; wireless (C\$)</b>				<b>1.9</b>	<b>(1.3)</b>	<b>0.7</b>	<b>1.2</b>	<b>(0.0)</b>	<b>12.5</b>
Rogers	43.02	48.64	40.18	0.3	(2.4)	(3.4)	(7.1)	(8.6)	7.8
Shaw	27.62	27.93	23.69	5.4	2.3	8.2	11.4	9.7	16.4
Cogeco Cable	58.93	64.87	45.47	1.6	(7.1)	2.1	24.8	25.1	32.1
Quebecor	25.93	27.72	22.22	(0.2)	(2.2)	(2.1)	(3.7)	(1.6)	11.2
<b>Canadian Indices</b>									
S&P TSX	15,215	15,256	12,074	1.7	3.5	6.3	13.8	13.3	29.0
TSX utilities	1,892	1,935	1,677	0.6	1.4	0.9	10.1	9.7	11.9
<b>US conglomerates (US\$)</b>				<b>1.4</b>	<b>1.4</b>	<b>2.9</b>	<b>5.4</b>	<b>4.1</b>	<b>4.3</b>
AT&T	35.84	36.86	31.74	1.6	1.8	1.9	5.7	4.7	6.0
Verizon	49.71	51.94	45.08	1.0	0.9	4.4	4.9	3.4	1.8
<b>US LECs (US\$)</b>				<b>0.8</b>	<b>0.3</b>	<b>10.3</b>	<b>26.0</b>	<b>25.2</b>	<b>47.2</b>
CenturyLink	36.08	38.21	27.93	(0.2)	(3.7)	9.3	17.8	16.9	9.2
Frontier	5.85	6.10	3.91	1.9	2.4	4.6	29.3	30.7	60.5
TW Telecom	40.67	41.67	25.83	1.5	25.9	29.2	35.0	33.5	40.3
Level 3	44.46	45.97	20.80	1.9	3.3	10.7	36.4	34.0	114.7
Windstream	9.97	10.22	7.18	1.5	6.6	18.9	31.9	32.1	42.5
<b>US wireless (US\$)</b>				<b>0.2</b>	<b>(2.5)</b>	<b>0.2</b>	<b>3.3</b>	<b>(0.9)</b>	<b>44.6</b>
T-Mobile US	33.33	35.50	22.95	0.2	(2.5)	0.2	3.3	(0.9)	44.6
<b>US business services (US\$)</b>				<b>0.2</b>	<b>0.1</b>	<b>39.3</b>	<b>42.9</b>	<b>44.6</b>	<b>33.0</b>
Cbeyond	9.96	9.99	5.39	0.2	0.1	39.3	42.9	44.6	33.0
<b>US towers (US\$)</b>				<b>1.0</b>	<b>0.8</b>	<b>7.7</b>	<b>11.3</b>	<b>9.7</b>	<b>20.6</b>
American Tower	90.01	90.73	67.89	1.6	1.8	11.6	13.8	13.6	26.3
Crown Castle	74.16	78.00	66.73	(0.2)	(1.5)	(0.7)	5.1	1.9	3.4
SBA Communications	101.73	102.57	71.10	1.9	2.0	12.8	15.9	13.2	37.5
<b>US cable (US\$)</b>				<b>2.8</b>	<b>5.6</b>	<b>7.6</b>	<b>9.7</b>	<b>7.8</b>	<b>35.0</b>
Comcast	54.90	55.28	41.06	2.9	5.4	7.8	8.4	6.6	35.7
Cablevision	18.29	20.16	14.65	4.0	5.1	6.3	8.2	3.8	1.0
<b>US DBS (US\$)</b>				<b>4.1</b>	<b>12.0</b>	<b>3.9</b>	<b>14.8</b>	<b>14.6</b>	<b>55.7</b>
EchoStar	66.37	66.65	41.33	4.1	12.0	3.9	14.8	14.6	55.7
DirecTV	85.93	89.46	57.05	1.0	4.2	9.3	24.5	24.4	36.2
<b>US Indices</b>									
S&P 500	1,985	1,986	1,605	1.5	3.4	5.7	9.5	8.5	25.5
US utilities	216.0	225.4	184.5	(2.8)	0.1	4.0	16.1	13.9	19.1
<b>Other indices</b>									
MSCI global market index	1,767	1,764	1,440	1.6	3.0	5.6	8.8	7.9	25.7
MSCI global telecom index	72.7	73.2	60.8	0.8	0.8	4.1	4.7	3.5	23.8
MSCI global utilities index	124.0	125.6	102.7	(0.7)	1.9	6.5	16.7	14.9	24.1
<b>10-yr treasuries</b>	<b>Last yield</b>			<b>Yield change (absolute)</b>					
US	2.638			0.10	0.04	(0.08)	(0.36)	(0.39)	0.14
Canada	2.329			0.08	(0.02)	(0.16)	(0.42)	(0.43)	(0.09)
<b>FX rate</b>	<b>Last closing</b>			<b>% change (inverted scale)</b>					
C\$/US\$	1.066	1.128	1.018	0.1	2.7	3.0	(0.0)	(0.3)	(1.3)

Source: BofA Merrill Lynch Global Research estimates

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Table 6: Growth rates: BofAML estimates

Company	Revenue growth rate (%)			EBITDA growth rate (%)			EBITDA margin expansion (pts)		
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
<b>Canadian ILECs (C\$)</b>	<b>3.1</b>	<b>2.7</b>	<b>1.9</b>	<b>3.3</b>	<b>2.6</b>	<b>2.4</b>	<b>0.2</b>	<b>0.0</b>	<b>0.2</b>
BCE	2.9	2.1	1.4	3.7	1.8	1.5	0.3	(0.1)	0.0
Bell Aliant	(0.4)	0.7	0.9	(0.2)	0.8	0.9	0.1	0.1	(0.0)
Manitoba Tel	(0.2)	0.8	(0.6)	(10.9)	2.8	(0.0)	(4.4)	0.7	0.2
Telus	4.9	4.4	3.2	6.1	4.8	4.9	0.4	0.1	0.6
<b>Canadian cable &amp; wireless (C\$)</b>	<b>2.0</b>	<b>2.4</b>	<b>1.2</b>	<b>1.9</b>	<b>1.5</b>	<b>1.0</b>	<b>0.2</b>	<b>(0.3)</b>	<b>(0.1)</b>
Rogers	0.6	3.1	1.5	0.1	0.6	1.8	(0.2)	(0.9)	0.1
Shaw	1.5	1.5	1.4	3.6	3.6	1.0	0.9	0.9	(0.2)
Cogeco Cable	2.1	2.1	1.0	0.6	0.6	(1.2)	(0.7)	(0.7)	(1.0)
Quebecor	0.9	1.8	0.5	2.9	2.5	(0.4)	0.5	0.2	(0.2)
<b>US conglomerates (US\$)</b>	<b>3.7</b>	<b>3.0</b>	<b>2.7</b>	<b>7.5</b>	<b>4.5</b>	<b>3.6</b>	<b>1.2</b>	<b>0.5</b>	<b>0.3</b>
AT&T	3.6	4.0	4.2	6.3	5.6	4.8	0.8	0.5	0.2
Verizon	3.9	1.9	1.2	8.8	3.6	2.4	1.6	0.6	0.5
<b>US LECs (US\$)</b>	<b>(0.1)</b>	<b>0.7</b>	<b>21.4</b>	<b>0.7</b>	<b>1.3</b>	<b>4.6</b>	<b>(0.3)</b>	<b>0.1</b>	<b>(2.9)</b>
CenturyLink	(0.2)	0.6	0.6	(4.2)	(0.8)	0.4	(1.7)	(0.5)	(0.1)
Frontier	(3.2)	(2.2)	(1.8)	(5.9)	(0.6)	(1.8)	(1.3)	0.8	0.0
TW Telecom	NM	NM	NM	NM	NM	NM	NM	NM	NM
Windstream	(1.3)	(0.4)	NM	(3.7)	(0.6)	NM	(0.9)	(0.1)	NM
<b>US wireless (US\$)</b>	<b>3.6</b>	<b>4.4</b>	<b>5.1</b>	<b>19.2</b>	<b>15.5</b>	<b>8.2</b>	<b>2.3</b>	<b>2.0</b>	<b>0.6</b>
Sprint Nextel	(0.5)	0.5	4.0	30.6	6.8	3.1	4.7	1.2	(0.2)
T-Mobile US	9.0	9.3	6.6	4.5	26.6	14.7	(0.8)	3.0	1.7
<b>US DBS (US\$)</b>	<b>5.3</b>	<b>4.7</b>	<b>4.0</b>	<b>(0.0)</b>	<b>0.5</b>	<b>(2.5)</b>	<b>(1.0)</b>	<b>(0.8)</b>	<b>(1.2)</b>
EchoStar	5.3	4.7	4.0	(0.0)	0.5	(2.5)	(1.0)	(0.8)	(1.2)
DirecTV	NM	NM	NM	NM	NM	NM	NM	NM	NM

Source: BofA Merrill Lynch Global Research estimates, Company Data

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Table 7: Growth rates: consensus vs. BofAML estimates

Company	Consensus growth rate (%)						BofAML estimate vs. consensus (pts)					
	Revenue			EBITDA			Revenue			EBITDA		
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
<b>Canadian ILECs</b>												
BCE	2.5	1.5	1.5	4.7	2.2	2.9	0.4	0.6	(0.1)	(1.0)	(0.4)	(1.4)
Bell Aliant	(1.1)	0.3	1.5	(0.9)	(0.3)	1.2	0.7	0.4	(0.6)	0.7	1.1	(0.3)
Manitoba Tel	(0.3)	0.3	1.5	(12.1)	2.1	2.2	0.1	0.5	(2.1)	1.2	0.7	(2.2)
Telus	4.7	3.6	2.6	6.3	5.1	5.1	0.2	0.8	0.6	(0.2)	(0.3)	(0.2)
<b>Canadian cable &amp; wireless</b>												
Rogers	1.3	1.9	1.2	0.8	2.3	2.2	(0.6)	1.2	0.3	(0.7)	(1.7)	(0.4)
Shaw	2.3	2.1	1.8	1.7	2.8	2.3	(0.1)	(0.6)	(0.4)	(0.4)	0.8	(1.3)
Cogeco Cable	14.9	2.9	1.5	14.2	2.8	3.0	(0.4)	(0.8)	(0.5)	(0.2)	(2.2)	(4.1)
Quebecor	1.0	1.7	2.7	4.3	4.0	4.7	(0.1)	0.1	(2.2)	(1.4)	(1.5)	(5.0)
<b>US conglomerates</b>												
AT&T	4.2	2.0	0.4	4.3	3.3	1.9	(0.6)	2.0	3.8	2.0	2.3	2.9
Verizon	3.9	2.9	1.8	7.3	4.3	2.7	(0.1)	(1.0)	(0.7)	1.4	(0.8)	(0.3)
<b>US LECs</b>												
CenturyLink	(0.3)	(0.1)	0.6	(4.1)	(1.5)	(0.1)	0.1	0.6	0.0	(0.1)	0.7	0.5
Cincinnati Bell	(3.7)	(6.8)	0.1	(2.3)	(11.2)	(3.8)	0.5	5.6	(0.8)	(7.1)	9.3	3.0
Frontier	(2.0)	5.9	0.5	(3.1)	5.3	0.8	(1.2)	(8.1)	(2.3)	(2.8)	(5.8)	(2.6)
TW Telecom	7.6	8.6	9.0	3.1	11.6	18.6	NM	NM	NM	NM	NM	NM
Level 3	2.4	5.6	5.5	17.6	10.7	8.8	0.2	(2.2)	69.9	(0.6)	(3.0)	7.7
Windstream	(1.6)	(0.7)	(0.7)	(4.4)	(0.4)	(0.3)	0.3	0.2	NM	0.7	(0.3)	NM
<b>US wireless</b>												
Sprint Nextel	(0.5)	(0.1)	0.9	29.8	9.6	13.1	(0.0)	0.7	3.0	0.7	(2.8)	(10.0)
T-Mobile US	17.3	7.4	4.6	9.3	22.0	12.7	(8.3)	1.9	1.9	(4.7)	4.6	2.1
<b>US cable</b>												
Comcast	6.6	4.6	6.7	6.5	6.2	7.2	0.8	(0.1)	0.8	1.0	0.9	(1.5)
Cablevision	2.6	1.7	2.3	5.5	2.4	1.6	0.4	(1.1)	(2.1)	1.5	(0.1)	(0.5)
<b>US DBS</b>												
EchoStar	5.8	5.0	4.5	2.4	4.6	4.5	(0.5)	(0.3)	(0.4)	(2.4)	(4.1)	(7.0)
DirectTV	4.4	5.7	5.6	3.3	6.0	4.6	NM	NM	NM	NM	NM	NM

Source: Bloomberg, BofA Merrill Lynch Global Research estimates, Company Data

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Table 8: Estimates: Consensus movements

Company	Consensus movement vs. 1 months ago				Consensus movement vs. 3 months ago			
	Revenue		EBITDA		Revenue		EBITDA	
	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E
<b>Canadian ILECs</b>								
BCE	0.0%	0.0%	0.0%	0.0%	-0.4%	-0.5%	-0.3%	-0.6%
Bell Aliant	0.0%	0.0%	0.0%	0.0%	-0.2%	-0.2%	-0.3%	-0.3%
Manitoba Tel	0.0%	0.0%	0.0%	0.0%	-0.7%	-0.6%	-0.7%	0.1%
Telus	-0.1%	-0.2%	-0.1%	-0.3%	0.2%	0.2%	0.2%	-0.2%
<b>Canadian cable &amp; wireless</b>								
Rogers	-0.1%	-0.2%	-0.1%	-0.3%	-1.2%	-1.3%	-1.2%	-0.9%
Shaw	-0.2%	-0.1%	0.2%	0.3%	0.6%	1.2%	0.5%	1.5%
Cogeco Cable	-0.1%	-0.1%	0.0%	-0.2%	1.1%	1.2%	0.9%	0.8%
Quebecor	0.0%	0.0%	-0.1%	-0.1%	-0.7%	-0.7%	0.1%	2.8%
<b>US conglomerates</b>								
AT&T	0.4%	0.3%	-0.1%	0.2%	1.5%	1.9%	-0.5%	-0.2%
Verizon	0.0%	0.2%	0.0%	0.0%	0.1%	-0.1%	0.7%	0.2%
<b>US LECs</b>								
Alaska Comm	0.1%	0.2%	0.4%	0.8%	1.0%	0.5%	3.2%	2.1%
CenturyLink	0.0%	0.0%	0.2%	0.1%	0.4%	0.5%	0.5%	0.6%
Cincinnati Bell	-1.9%	0.0%	0.0%	-0.7%	-0.3%	-5.8%	1.5%	-7.1%
Frontier	0.0%	-0.1%	0.0%	0.2%	0.2%	3.2%	0.1%	3.3%
TW Telecom	0.1%	0.2%	-0.1%	0.0%	0.5%	0.8%	-1.3%	-0.8%
Level 3	0.0%	1.9%	-0.2%	2.3%	0.6%	3.0%	3.8%	6.4%
Windstream	0.0%	-0.1%	0.5%	0.1%	-0.2%	0.0%	-1.1%	-0.4%
<b>US wireless</b>								
Sprint Nextel	0.0%	-0.1%	-0.1%	0.4%	0.0%	-1.6%	2.8%	-3.1%
T-Mobile US	0.1%	0.2%	0.1%	0.5%	0.9%	2.1%	-2.4%	-0.5%
<b>US cable</b>								
Comcast	-0.3%	0.0%	-0.2%	0.1%	0.1%	0.5%	0.1%	-0.3%
Cablevision	0.0%	-0.1%	0.4%	0.7%	0.7%	0.9%	2.0%	1.5%
<b>US DBS</b>								
EchoStar	0.0%	0.0%	0.1%	-0.1%	0.4%	0.5%	0.6%	1.2%
DirecTV	0.0%	0.0%	0.0%	0.0%	-0.6%	-0.4%	-2.0%	-0.7%

Source: Bloomberg

## Research highlights

July 3

### American Tower Corp.: Focus on existing markets for incremental M&A and margin

**Summary:**

- We were pleased to host American Tower at investor meeting in the Asia Pacific region.
- We reiterate our Buy rating on continued strong fundamentals leading to premium growth.
- Among key nuggets from our trip was the company's plan to focus on existing markets for expansion which can boost margins.

**Primary Analyst:** David W. Barden, CFA

**Region:** Americas

 [Click for full report\\*](#)

### Sirius XM Radio Inc: Summer SAAR Sizzle Supports SIRI

**Summary:**

- Superb June SAAR underscores SIRI's competitive insulation. Guidance incrementally de-risked.
- High growth, expanding margins, superior cap returns.

**Primary Analyst:** Jessica Reif Cohen

**Region:** Americas

 [Click for full report\\*](#)

July 2

### 21st Century Fox: Future still better than the past

**Summary:**

- F4QE preview: back-end loaded Film growth; we project high single digit rev. growth and double digit EBITDA growth.
- We est. F4QE rev. growth of +7% and EBITDA growth of +19% (vs. +20% prev.); raising F4QE EPS to \$0.38.
- We are reducing FY15 EPS to \$1.74 due to higher prog. exp., D&A and int. exp. and back-end loaded margin ramp at Satellite.

**Primary Analyst:** Jessica Reif Cohen

**Region:** Americas

 [Click for full report\\*](#)



### Canadian Telecom & Cable Weekly: Iliad: New entrant blueprint or one-off success?

#### Summary:

- We profile France's Iliad, an unusual new entrant success story
- While some elements of the Iliad strategy could be applied in other markets, for others this would likely be difficult.

**Primary Analyst:** Glen Campbell

**Region:** Americas

 [Click for full report\\*](#)

## June 30

### Shaw Communications: Raising PO to C\$27 as subscriber results improve

#### Summary:

- We are raising our PO to C\$27.00/US\$25.25 (14X FY15 EPS) from C\$26.50/US\$24.25, and adjusting our estimates.
- We now forecast FY14 growth of -0.4%/0.0%, revised from -1.1%/-0.9% (vs. -0.7% for 3Q14).
- We expect clarity on rate increases in the next 1-2 months, with FY15 guidance coming in October.

**Primary Analyst:** Glen Campbell

**Region:** Americas

 [Click for full report\\*](#)

## Other industry news

### July 4

**Industry Canada announced that James Moore will make an announcement on July 7 – 9:30AM on wireless competition.** Mr. Moore will make an announcement to “support more consumer choice and better service in the wireless market.”

(MobileSyrup.com) **Wind Mobile expanded its Ontario wireless network to include Brantford and Paris.** Recently Wind announced it has surpassed 735K subs and Tony Lacavera, Wind Mobile Canada CEO, noted that the carrier is seeing an average customer usage of 1.5GB of data per month, and over 90% of all devices sold are smartphones, with 85% running Android.

### July 3

(droid-life.com) **Verizon Wireless might bring LTE data access to its prepaid customers for the first time on July 17,** according to a report from *Droid Life*. Verizon has, up until now, limited its prepaid customers to its 3G CDMA network. Starting July 17 Verizon's AllSet plans might gain LTE access. The plans are for feature phones and smartphones, with the cheapest prepaid smartphone plan starting at \$45 per month for unlimited voice and texting and 500MB of data. The cheapest feature phone plan is \$35 per month and includes 500 voice minutes, unlimited texting and 500MB of data.

Industry Canada James Moore will make an announcement on July 7 – 9:30AM on wireless competition

Wind Mobile expands its wireless network to include Brantford and Paris

Verizon Wireless might bring LTE data access to its prepaid customers for the first time on July 17

Cogeco Cable Canada launches two new HS internet packages with unlimited data transfer capacity for its Quebec and Ontario customers

**Cogeco Cable Canada announced the launch of two new HS Internet packages with unlimited data transfer capacity for its Quebec and Ontario customers:** The Ultimate 55 Unlimited sells for \$103.95/month or \$73.95/month when bundled with three services. Meanwhile, the Ultimate 120 Unlimited sells for \$124.95/month or \$94.95/month when bundled with three services.

Roam Mobility says that customers will connect to LTE speeds, effective July 7

## July 2

(MobileSyrup.com) **Roam Mobility said that customers will connect to LTE speeds, effective July 7.** As part of its roaming agreement with T-Mobile US, Canadians will be able to access LTE speeds when roaming in the US. Emir Aboulhosn, CEO of Roam Mobility said, "Our 4G LTE Network doesn't just bring faster data speeds. It's the first of many new services we'll be announcing in the coming weeks that we expect to have a big impact on Canadian roaming services. Our new plans will include features such as unlimited data, easier plan scheduling, international LD calling and lower introductory pricing."

VTel Wireless launches LTE service in parts of Vermont

(FierceWireless.com) **VTel Wireless launched LTE service in parts of Vermont.** The company is one of the 12 smaller wireless carriers Sprint announced LTE roaming deals with in June. VTel will offer service to 20 K customers initially in part of Vermont, including in 24 towns.

21% of Canadian households were cellphone-only as of December 2013

## July 1

(Statcan.gc.ca) **21% of Canadian households were cellphone-only as of December 2013,** up from 13% in 2010, according to a survey by StatsCan. The survey consisted of data from December 2013 of 19K Canadian households. The survey showed that the cellphone-only households are more popular with those under 35 years of age, while those aged 55 and over still tend to pick up a home phone.

T-Mobile US meets its mid-year goal of covering 230mn POPs with its LTE network

(FierceWireless.com) **T-Mobile US confirmed it met its mid-year goal of covering 230mn POPs with its LTE network.** The carrier plans to cover 250 million POPs with LTE by the end of 2014. T-Mobile CEO John Legere confirmed the milestone in a post on Twitter, referencing CTO Neville Ray, who said in a June 18 blog post that T-Mobile US would hit the goal.

Dish Network might have been involved through the later stages of the bidding process for acquiring DirecTV

(FierceCable.com) **Dish Network might have been involved through the later stages of the bidding process for acquiring DirecTV** and did not bow out until just before the deal with AT&T was announced in May, according to a SEC filing. On Tuesday, DirecTV filed a detailed report to the Securities and Exchange Commission, outlining the events that led up to the company's agreement with AT&T. Dish Network is not specifically named in the report--rather, the third party is referred to as "Company A," a direct competitor to DirecTV with large wireless spectrum holdings. According to the filing, the dealmaking process kicked off in July 2013, when AT&T CEO Randall Stephenson contacted DirecTV chief executive Michael White and broached the idea of a potential merger. Both parties agreed to assess the prospects for regulatory approval, but AT&T ended the dialog in September for reasons that aren't made clear in the SEC document.

Bell to implement a one-time 4.95 fee for new SIM cards on postpaid accounts, effective July 3

## June 30

(MobileSyrup.com) **Bell Mobility would implement a one-time \$4.95 fee for all types of new SIM cards on postpaid accounts, effective July 3,** according to press reports. The charge might apply to customers who: 1) activate new service (hardware upgrade or purchase a new device), 2) purchase a SIM card only (down from \$9.95), 3) replace a defective SIM after one year, and, or 4) complete a transfer of responsibility (only if a new SIM is required) (down from \$9.95).

AT&T announced that Inmobiliaria Carso (Carlos Slim's holding company) will buy AT&T's 8.3% stake in America Movil for \$5.6bn

(FierceWireless.com) **AT&T announced that Inmobiliaria Carso (Carlos Slim's holding company) will buy AT&T's stake in America Movil for \$5.6bn.** AT&T had been expected to sell its holding in America Movil as a way to ease regulatory passage of its proposed \$49bn deal for DirecTV. Inmobiliaria Carso informed America Movil's board it would buy AT&T's 8.3% stake, which includes 24% of the company's voting shares, according to a filing made with the Mexican stock exchange. As part of the deal, AT&T will get \$4.57bn when the deal closes and another \$1bn within 60 days of the closing.

Aereo halts its operations on Saturday, saying it is only temporary

(FierceCable.com) **Aereo announced that it halted its operations on Saturday, saying it was only temporary.** Last week, the US Supreme Court ruled against Aereo in a case brought by several broadcasters. "As a result of that decision, our case has been returned to the lower Court. We have decided to pause our operations temporarily as we consult with the court and map out our next steps," said founder and CEO Chet Kanojia.

## Links to past issues

[July 2: Iliad: New entrant blueprint or one-off success?](#)

[June 23: 2Q14 preview and model summaries](#)

[June 16: Wireless pricing comparison update](#)

[June 9: Wireless consolidation: Hot topic both sides of the Atlantic](#)

[June 2: The future of ARPU](#)

[May 27: Pay day in Canada: A look at executive compensation](#)

[May 19: Net neutrality north and south](#)

[May 12: 1Q14 telecom & cable snapshots](#)

[May 6: AWS-3: More spectrum potentially on the way](#)

[April 28: On handset subsidies, rate plans and margins](#)

[April 21: Canadian wireless in perspective](#)

[April 14: How expensive are Canadian telcos now?](#)

[April 7: 1Q14 preview: Wireless on the mend, but multiples high](#)

[Mar. 31: Ten reasons pay-TV providers should embrace OTT video](#)

[Mar. 17: Wireless pricing firms up](#)

[Mar. 10: M2M in Canada and the world](#)

[Mar. 3: What will the government do next?](#)

[Feb. 25: After the auction](#)

[Feb. 20: 4Q13 telecom & cable snapshots](#)

[Feb. 10: Wireless worries](#)

[Feb. 3: Quebecor and wireless: Fear creates opportunity](#)

[Jan 24: TELUS moves to plug the ARPU leak](#)

[Jan. 20: Quebecor wireless expansion: A closer look](#)

[Jan. 13: 4Q13 results preview](#)

[Jan. 5: What drove returns in 2013?](#)

## Links to past global reports

[April 21: Global Wireless Matrix 1Q14: The quad play: How disruptive?](#)

[April 21: Global Wireless Matrix 1Q14 stock recommendations](#)

[Jan. 8: Global Wireless Matrix 4Q13: 2014: The year ahead](#)

[Sept. 30: Global Wireless Matrix 3Q13: M&A in full swing](#)

[July 11: Global Wireless Matrix 2Q13: Growth slows, M&A accelerates](#)

### Companies Mentioned

BofAML Ticker	Bloomberg ticker	Company name	Price	Rating
BCE	BCE US	BCE	45.6	A-2-7
YBCE	BCE CN	BCE	48.52	A-2-7
YBA	BA CN	Bell Aliant	27.81	B-3-8
YCCA	CCA CN	Cogeco Cable	58.93	C-1-7
YCGO	CGO CN	Cogeco Inc	54.25	C-3-7
YMBT	MBT CN	Manitoba Tel	30.9	B-3-8
YQBRB	QBR/B CN	Quebecor Inc.	25.94	B-1-7
RCI	RCI US	Rogers Comm	40.49	B-1-7
YRCIB	RCI/B CN	Rogers Comm	43.02	B-1-7
SJR	SJR US	Shaw Comm	26.06	C-2-7
YSJRB	SJR/B CN	Shaw Comm	27.62	C-2-7
TU	TU US	TELUS Corp.	37.34	B-1-7
YT	T CN	TELUS Corp.	39.93	B-1-7

BofA Merrill Lynch Global Research

## Price objective basis & risk

### BCE Inc. (YBCE / BCE)

Our C\$48.75 (US\$44.75) price objective is calculated using our sum-of-parts approach, using DCF-based target (FY15E) EBITDA multiples for each segment: 5.5x for wireline, 9.1x for wireless, 7.6x for Bell Aliant, and 11.4x for Media. We separately discount the cash flows associated with restructuring (C\$1.21 per share) and adjust our EV by non-EBITDA generating assets and one-half of the pension deficit. Our PO implies 2014/15E P/E multiples of 15.0x/14.9x. The implied FCF yields are 5.8%/6.2% (tax normalized) and the implied EV/EBITDA multiples are 7.4x/7.3x.

Downside (upside) risks to our price objective are multiple contraction (expansion) related to competitive and regulatory concerns in wireless, weaker (stronger)-than-expected revenue growth due to economic and competitive pressures and accelerating wireless/wireline substitution, slower (faster)- than-expected progress in cost reduction and heavier (lighter)- than-expected spending associated with the IPTV rollout.

### Bell Aliant Inc (YBA)

Our C\$25.75 price objective is supported by our DCF calculation (using a wireline WACC of 6.50%). Our key terminal year (2025E) assumptions include a wireline EBITDA margin of 46.5% with capex/sales at 17.0% with a terminal growth rate of 0%. Our PO implies 7.6x/7.6x 14E/15E EV/EBITDA, with tax normalized FCF yields of 6.3%/6.8% and P/E multiples of 15.9x/15.2x.

Upside risks to our PO are: 1) further declines in interest rates that would make Bell Aliant's cash yield more attractive than other low yielding investments, 2) cost-cutting that would enable margins to be increased, 3) lower than expected market share inroads by cable and line losses to wireless substitution, and 4) long-term capital intensity below our assumption. Downside risks to our PO are: 1) capex could remain higher than expected for years after the network is built, 2) competitive pressures outside the FTTH footprint could deliver cash flow shortfalls and lead to a dividend cut.

### Cogeco Cable (YCCA)

Our price objective for Cogeco Cable is C\$62.50. We use DCF-derived target FY15E multiples of 6.5x for Canadian Cable (net of corporate expense), 8.0x for US Cable and 11.2x for Enterprise Solutions, with unallocated corporate expense valued separately. We apply a time-adjusted 20% target holdco discount. The implied P/E ratio is 11.9x and the tax-normalized FCF yield is 8.6% for FY2015E.

Downside risks to our PO: Telco triple-play competition could bite sooner or more aggressively than we are forecasting. Multiples could compress as a result of telco FTTH/IPTV deployments, or further expansionary M&A. New OTT video platforms could hurt investor sentiment toward the sector. Integration and reacceleration of subscriber growth at Atlantic Broadband may falter, or may come at the expense of EBITDA margins. PEER1 margins, revenue growth and synergies may be disappointing relative to expectations, due to competitive pressures and/or execution challenges.

### Cogeco Inc (YCGO)

Our C\$52.75 12-month price objective is based on our target valuation for Cogeco Cable (C\$62.50) and a 7.5x target 2015E EBITDA multiple for radio, a

15% target NAV discount (below the historical average of 20%) and a time value discount of 0%. The multiple on radio is calculated on pro forma EBITDA including the Corus radio assets, and is a premium multiple reflecting the likelihood of post-2013 margin expansion.

Downside risks to our PO: Increasing competition, dilutive acquisitions, IPTV inroads into the cable TV market, disintermediation of carrier voice and video services by web-based alternatives, acquisition integration problems and rising capital intensity in response to increasing competition, and margin/execution pressures in the web hosting market. Upside risks to our PO: diminishing investor concerns about M&A, operating results that exceed consensus expectations and any increase in the perceived likelihood that the family control block might be sold.

### **Manitoba Telecom (YMBT)**

Our C\$30.50 price objective is calculated using our 2015E sum-of-the-parts valuation. We use DCF-derived target EBITDA multiples of 5.6x for in-region wireline business, 7.5x for wireless and 4.6X for Allstream. Other items include tax losses and one half of the pro forma pension deficits. Our PO implies 5.0x 2015E EV/EBITDA, with tax normalized FCF yield of 4.7% and adjusted P/E of 16.2x.

Upside risks to our PO are a take-over bid for the company, stronger-than-expected margins and market shares, and an increase in the pension solvency discount rate.

Downside risks to our PO are revenue and margin pressures related to in-region competition and failure to stabilize Allstream revenues.

### **Quebecor Inc. (YQBRB)**

Our C\$35.00 PO for Quebecor Inc. is equal to our sum-of-the-parts valuation for Quebecor Inc. at YE15E, less a 10% holdco discount and a 5.0% time value discount. Our NAV calculation uses target EBITDA multiples of 6.4x for the Videotron cable segment (DCF-derived) and 3.2x for the News/Media segment. We value wireless separately on a DCF basis at approximately C\$2.2bn at YE15E (for 100%). We use the current share price for TVA.

Risks to our PO are: 1) a more severe deterioration in cable subscriber and revenue growth than investors are anticipating, due to market maturity and more effective competition from BCE, 2) dilutive acquisitions or aggressive spending on out-of-region wireless network deployment, 3) slower-than-expected cash flow ramp-up in wireless, and 4) the possibility that consensus EPS estimates may remain too high.

### **Rogers Comm (YRCIB / RCI)**

Our 12-month price objective of C\$44.75 (US\$40.50) is calculated as our YE2015E sum-of-the-parts valuation, less a 0% target discount and a 2.0% time-value adjustment. In our SotP valuation, we use DCF-derived target EBITDA multiples for wireless (7.3x) and cable (7.0x), with Media at 9.5x. Wireless represents about 61% of our SotP valuation and cable about 31%. In wireless, we assume 100% market penetration in 2025E (vs. 80% at YE2013), 28.0% subscriber market share (from 34%), ARPU of C\$55.00 (from C\$59.41) and EBITDA/service revenue of 45% (vs. 46.8%) capex/sales of 14%, WACC of 7.00% and a terminal growth rate of 0%. Our PO represents 7.3x/7.1x consolidated EBITDA for 2014/15E and P/E of 14.4x/14.0x, respectively.

Downside risks to our PO are faster-than-expected declines in wireless ARPU, market share and/or margins resulting from competitive pressure, intensification of telco/cable triple-play competition, continuing execution slippage, wireless margin pressure in 2015 from accelerated handset replacements and multiple compression from slowing growth.

### Shaw Communications (YSJRB / SJR)

Our C\$27.00 (US\$25.25) price objective is equal to our sum-of-the-parts valuation for Shaw for FY15E (0.6% time value discount), with cable valued at 7.5x FY15E EBITDA, DBS (Shaw Direct) at 5.8x EBITDA, Satellite Services at 9.7x, and Media (TV broadcasting) at 9.3x. These multiples are DCF-derived. For cable, which accounts for 73% of our gross NAV, we assume a long-term (2025E) margin of 48.0% and capex/revenue of 20.0%, a WACC of 6.5% and 0.0% terminal growth. At our target, the implied consolidated FY14E/15E multiples are 7.7x/7.5x EBITDA, 15.3x/13.9x EPS and a 4.1%/4.3% tax-normalized FCF yield.

Downside risks to our PO are greater-than-expected pressure on subscriber counts and margins from TELUS IPTV and video cord-cutting, rapid programming cost escalation, failure to achieve projected capex reductions after FY15 and a sharp slowdown in broadband/cable phone sub growth as the market matures.

### TELUS Corp. (YT / TU)

Our C\$41.25 price objective (US\$38.00) is calculated from our YE2015E sum-of-the-parts valuation, using DCF values for each segment. The implied EBITDA multiples are 8.8X (2015E) for wireless and 6.5X for wireline. We apply a time value discount of 2.2% to reach a 12-month target. The implied consolidated multiples for 2014E/15E are 8.3X/7.9X EBITDA, 4.3%/5.6% FCF yield and 17.0x/15.3x EPS (pre-restructuring).

For wireless (roughly 71% of EV), we assume long-term margin of 45.0% by 2025E vs. 46.7% in 2013), capex/service revenue of 11.5% and terminal growth of 0.00% with WACC of 7.00%. We assume that ARPU will fall to C\$55.00 by 2025E, with TELUS having 28.0% market share, and penetration reaching 100% in 2025E from 80% at YE2013. For wireline, we assume a terminal EBITDA margin of 33.0% (pre-restructuring) and capex/revenue of 18.0% by 2025.

Downside risks to our PO are sector re-rating, an acceleration of wireless margin/ARPU compression in a maturing and competitive market, wireless repricing, ARPU pressure from more aggressive regulation, an acceleration of wireless substitution, cable competitive inroads in the wireline segment, and sustained high wireline capital intensity and opex.

## Link to Definitions

### Media & Telecom

Click [here](#) for definitions of commonly used terms.

## Analyst Certification

I, Glen Campbell, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

BofA Merrill Lynch is currently acting as financial advisor to BCE Inc. in connection with its proposed sale of Family, Disney XD, Disney Junior (English-language channel), and Disney Junior (French language channel) to DHX Media Ltd, which was announced on November 28, 2013.

BofA Merrill Lynch is currently acting as financial advisor to BCE Inc. in connection with its proposed sale of MusiquePlus and MusiMax to V Media Group, which was announced on December 3, 2013.

### CANADIAN TELECOM AND CABLE Coverage Cluster

Investment rating	Company	BofA Merrill Lynch		Analyst
		ticker	Bloomberg symbol	
<b>BUY</b>				
	Cogeco Cable	YCCA	CCA CN	Glen Campbell
	Quebecor Inc.	YQBRB	QBR/B CN	Glen Campbell
	Rogers Comm	YRCIB	RCI/B CN	Glen Campbell
	Rogers Communications	RCI	RCI US	Glen Campbell
	TELUS Corp.	YT	T CN	Glen Campbell
	TELUS Corp.	TU	TU US	Glen Campbell
<b>NEUTRAL</b>				
	BCE Inc.	YBCE	BCE CN	Glen Campbell
	BCE Inc.	BCE	BCE US	Glen Campbell
	Shaw Communications	SJR	SJR US	Glen Campbell
	Shaw Communications	YSJRB	SJR/B CN	Glen Campbell
<b>UNDERPERFORM</b>				
	Bell Alliant Inc	YBA	BA CN	Glen Campbell
	Cogeco Inc	YCGO	CGO CN	Glen Campbell
	Manitoba Telecom	YMBT	MBT CN	Glen Campbell



## Important Disclosures

### Investment Rating Distribution: Media & Entertainment Group (as of 30 Jun 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	36	46.15%	Buy	25	69.44%
Neutral	25	32.05%	Neutral	15	60.00%
Sell	17	21.79%	Sell	10	58.82%

### Investment Rating Distribution: Telecommunications Group (as of 30 Jun 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	61	43.88%	Buy	53	86.89%
Neutral	35	25.18%	Neutral	27	77.14%
Sell	43	30.94%	Sell	21	48.84%

### Investment Rating Distribution: Global Group (as of 30 Jun 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1696	51.39%	Buy	1275	75.18%
Neutral	837	25.36%	Neutral	619	73.95%
Sell	767	23.24%	Sell	489	63.75%

\* Companies that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Merrill Lynch Comment referencing the stock.

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