



***Highlights from  
The 2005 Canadian Telecom Summit***  
May 30<sup>th</sup> – June 1<sup>st</sup>, 2005, Toronto, Ontario

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## Executive Summary:

Our general impression from the 2005 Canadian Telecom Summit is that the industry has recovered from its recent lows and there are likely to be some good investment opportunities created through growth and fundamental changes in the sector.

However, there were no significant announcements at the Telecom Summit that have changed our corporate debt investment recommendations. Given current valuations we continue to rate the sector a **Market Perform**. We are also not changing our individual bond ratings.

Key themes from the conference were:

- 1) The financial paradigm shift.
- 2) Wireless hot topics.
- 3) VoIP continues to dominate the discussion.
- 4) Regulator comes under fire.



## Overall mood at the Canadian Telecom Summit:

From talking with companies it was clear that things are better these days and have substantially improved from the dark days of the telecom collapse in 2001. It has taken a couple of years to regain confidence in this sector. Renewed confidence was evident at the conference.

- financial stability
- new growth prospects
- new exciting technologies.

***“The telecom industry is an exciting place to be right now!”*** – John MacDonald, President, Allstream

- industry is transitioning - revolution happening.
- interactive multimedia / mobility / new ways to communicate (every year it is changing before our eyes).

However, many said during the Summit that Canada is falling behind in digital world. Need to create intelligent communities. Bell CEO Michael Sabia said Canada is falling behind in IT spending (40% less spending than U.S.).



## Financial Paradigm Shift:

With the changes in the industry companies will have to **re-think** how they make money.

- Simple connectivity is less important and selling value-added services is key. ***“Don’t just provide big fat pipe, but brains!”*** – John MacDonald, President, Allstream
- Growth in wireline connectivity revenues is negative, although wireless connectivity revenues are growing, but largely because of subscriber growth. ***“What really matters is what happens over those lines.”*** – Bell Canada CEO Michael Sabia
- Minutes and distance have become less meaningful, as we move to the bits and bytes world of IP in telecom. Fundamental change in traditional definitions: LD, local, etc.
- Service quality, amount of bandwidth/speed and customer service become important. ***“Solutions innovator with strength in delivering horizontal & vertical applications to communities of interest.”*** – John MacDonald, President, Allstream eHealth is an example.
- **Traffic attracted to the lowest cost network** (wireless/wireline, whatever the technology). New model is about continually driving cost out of the network.



## Hot Wireless Topics:

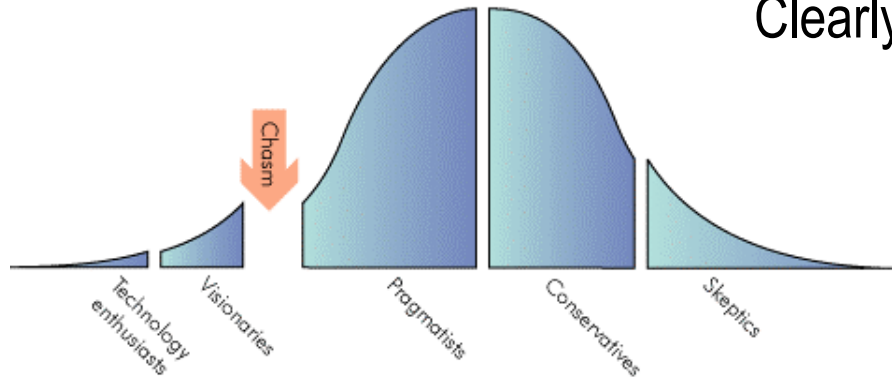
Many new wireless technologies and revenue streams were talked about at the conference. Broadband wireless (3G) seems to be becoming more visible again.

- **Smart Phones** – merges iPOD, cellular phone, digital camera, PC & PDA; according to Microsoft by 2009 smart phones sales will outstrip PC sales.
- **3G Wireless** – has become more visible again; providing more bandwidth to the handset (13 mbps versus wireline of 26 Mbps – could go much higher) 3G is a 2006-2007 event.
- **Network Evolution** – voice/data over cellular > voice over WiFi > WiMAX > 3G/4G In 12-18 months will see wireless/wireline convergence (30% of cellular calls in home).
- **WiFi/WiMax** – Internet could provide substitute to cellular phone network.
- **New Applications** – ring tones, games and IP TV (today); much more content in future.
- **Wireless Content** – new technologies are pushing more content to the handset; new sources of revenue (news & info services, entertainment, shopping & product directories, and advertising).



## VoIP Continues to Dominate Discussion:

- **VoIP crossing the chasm?** Maybe in the business market, but not in residential yet. Clearly we are still a ways from the “tipping-point”.



- **Quality of service** – the number one issue. Still not perfect.
- **Security** – protect privacy, but also virus, worms, intruders - is likely slowing adoption. Can it stop the adoption of this technology? (shutdown telecom network/call centres). Security is likely the “dirty little secret” of the VoIP world. Not enough known yet!
- **Early evidence from new VoIP players** – is the stand-alone business case working? Rogers said Vonage will be a niche player and bundling will be a challenge.
- **Price elasticity of voice/VoIP** – important because the only benefit in the residential market seems to be lower price. However, it seems like marketing focus is not on price.



## Regulator Under Fire at the Summit:

- **The ILECs react** - Both BCE and TELUS argued that the May 12<sup>th</sup> Decision will hurt Canadian economy. Argue that decision was primarily to protect “big cable”.
- **Next 12-month battle** - The next 12 months will be intense. Lots of lobbying to make changes to (1) CRTC, (2) rulings, and (3) telecom policy (panel).
- **Local number portability**
  - Between carriers, and wireless to wireline.
  - Industry taking the initiative.
  - Hiring consultant in the Fall. Took the U.S. 7 years to implement. Expect much shorter time horizon in Canada.
  - Given U.S. experience, **not** expecting to see significant increases in subscriber churn (bundles and plans).



## Other Meaningful Telecom Summit Highlights:

- **Power of the bundle** – There was some debate about the value of the telecom service bundle (triple and quadruple play). Do customers want choice? Bell Canada said broadband Internet and video are the key churn reducing services in the bundle.
- **Foreign ownership** – Most carriers (telecom and cable) agreed at the conference that the elimination of foreign ownership rules would be acceptable. If foreign companies can get into VoIP (Vonage) then why have foreign ownership rules?
- **End of an era for industry** – Sprint Canada/Call-Net was the final CLEC in Canada. All independent CLECs are now gone. Scale was hard to achieve (competitors, regulators and consolidation stood in the way). Did not have the scale to invest in new technology.
- **Rogers' entry into the business market is real** – Call-Net acquisition and set-up a separate subsidiary to go after business customers. Moving to be more than just wireless.
- **Next generation networks** – focus on increasing revenue streams and reducing expenses. One network. Savings not realized until legacy networks are removed. Telecom Italia example; reduced costs by 20-30% through IP implementation.







Please refer to Our Opinions table (below) to place this credit in its sector-relative-value context

8-Jun-05	Analyst	Senior unsecured			Credit fundamentals (1-3 years)	Rating change probab. (1 year)	Valuation	YTD total return				YTD change in spread			
		DBRS	Moody's	S&P				Shorter bond		Longer bond		Shorter bond		Longer bond	
								Bond	Return	Bond	Return	Curr Sprd	YTD Chng	Curr Sprd	YTD Chng
<b>Telecom: ILECs are large, strong competitors. Wireless continues to drive growth. May lose some telephony market share to cable, but no dramatic changes in credit profiles expected in 2005</b>															
BCE Inc.	PA	A Neg	Baa1 Neg	A- Neg	Stable	Low	R	6.75% 2007	2.43%	NA	NA	55	▼ 2	NA	NA
Bell Canada	PA	A(high) Neg	A3 Neg	A Neg	Stable	Low	R	6.15% 2009	3.25%	7.3% 2032	6.53%	39	▲ 2	141	▲ 22
Aliant	PA	A Neg	NR	A Neg	Stable	Moderate	F	6.65% 2009	3.07%	8.3% 2019	8.50%	50	▲ 11	121	▼ 19
BCE relies on strong Bell subsidiary; subordinated to Bell bonds. Good way to get a spread pick up if comfortable with subordination of the holdco debt. Bell has a strong ILEC position in central Canada; fairly valued now. Moody's threatening to downgrade. The focus has now shifted from debt reduction to equity investors. Aliant had a relatively poor 1Q05. However, we still expect some credit improvement in 2005. There is potential for a new bond deal this year.															
MTS	PA	BBB(high)	NR	BBB+	Stable	Low	F	5.9% 2008	2.92%	NA	NA	59	▼ 5	NA	NA
MTS is all about Allstream. Anything over \$200MM in EBITDA for Allstream would be positive for MTS.															
TELUS Comm.	PA	BBB(high)	Baa3 Pos	BBB Pos	Positive	High	C	NA	NA	8.8% 2025	7.85%	NA	NA	138	▲ 13
TELUS Corp.	PA	BBB	Baa3 Pos	BBB Pos	Positive	High	C	NA	NA	NA	NA	NA	#VALUE!	NA	NA
Very strong 1Q05 results. Strong cash flow momentum. Rating upgrade possible. Possible new issue in next 18 months.															
<b>Cable companies: Free cash flow generation and relatively good balance sheets, except Rogers. Expect credit quality improvements in 2005. Telephony launches in 2005.</b>															
Cogeco <sup>2</sup>	PA	BB(high) Pos	NR	BBB-	Positive	High	F	NA	NA	NA	NA	NA	NA	NA	NA
Good F2Q05 results. The Company's credit profile improved during the quarter due to a reduction in debt and an increase in EBITDA. Telephony rollout expected mid-2005. Continues to be a credit improving story.															
Rogers Cable <sup>2</sup>	PA	BBp	Ba3	BB+	Stable	Low	F	NA	NA	NA	NA	NA	NA	NA	NA
Good 1Q05 results, company is executing on plan and still in line to hit 2005 guidance. Acquisition of Call-Net adds minor risk. Deleveraging story.															
Shaw Comm.	PA	BB(high) Pos	Ba2	BB+ Pos	Positive	High	F	NA	NA	NA	NA	NA	NA	NA	NA
Some questions about FCF but expect relatively flat credit metrics in 2005. Has best credit ratios in the cable sector.															

**Our ratings:**

**Market Perform.** The issuer's bonds are expected to perform in line with our universe of bonds over the next 12 months.

**Outperform.** The issuer's bonds are expected to outperform our universe of bonds over the next 12 months.

**Underperform.** The Issuer's bonds are expected to underperform our universe of bonds over the next 12 months.

CIBC WM - CDR Universe (equally weighted)	
Rating Category	
Outperform	38%
Market Perform	46%
Underperform	15%

**Legal Disclaimers and Important Disclosure Footnotes**

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