

# Communications - Telecommunications

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Research Comment  
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**Industry Rating: Outperform**

## AT&T Sets Benchmark for Data Pricing Amongst Peers – Canadian Pricing Compares Favourably

We have compared smartphone/iPad pricing amongst a select group of North American carriers to get a measure of comparative data pricing offers in the market.

As a recap, AT&T's (T-NYSE, Outperform) introduction of data usage caps was highly expected by the market given the rapid growth in data traffic that has led to poor network performance in a number of markets, the most notable of which are Manhattan and San Francisco.

AT&T eliminated the \$30 unlimited data plans for new users, replacing it with a \$15/200MB and \$25 2G data plan for smartphone and iPad users. We had previously highlighted that we expect uptake activity could be limited for the 200MB plan (65% of users) as this will not be sufficient for many users and overage charges are onerous. Hence, we foresee strong uptake for the \$25 plan. Trade down from the \$30 plan should also be limited as it will be grandfathered for future device releases. We note that the simplicity of the AT&T plans highlights there are incongruencies with respect to smartphone and wireless broadband pricing (data stick) at all carriers that we assume will change over time as these products mature.

Overall, we view this move as positive for AT&T, as it should lead to a combination of higher penetration of data plans on smartphones, less network congestion and potentially higher revenues from heavy users. We expect in time that Verizon (VZ-NYSE, Outperform) will implement similar plans though Verizon could continue with its \$30 smartphone unlimited data plan in the short term as a point of differentiation. We foresee some opportunity for Verizon to be less punitive with overage policies (graduated charges for overage as opposed to fixed incremental costs). With excess network capacity, we believe Sprint (S-NYSE, Market Perform) is unlikely to follow suit, maintaining its Unlimited Mobile-to-Mobile plan (voice and data) priced at \$69.99 (with 450 MOU off-net). Unlimited operators Leap (LEAP-NYSE, Market Perform) and MetroPCS (PCS-NYSE, Market Perform) will likely choose to continue to throttle throughput at high usage caps (~5GB) with pricing in the \$40 range.

### Summary

- AT&T recently introduced data usage caps for smartphones and the iPad.
- We viewed this move as positive for AT&T, as it should lead to a combination of higher penetration of data plans on smartphones, less network congestion and potentially higher revenues from heavy users.
- We believe that Verizon will follow suit in the medium term but may maintain unlimited plans short term as a point of differentiation.
- Sprint, Leap and MetroPCS will likely not follow suit with the latter capping use at 5GB and throttling usage above this limit.
- Interestingly, we highlight that Canadian postpaid data pricing is cheaper relative to AT&T for light and extremely heavy users. Given the competitive dynamics in Canada, we expect this trend to continue into 2011 as Canadian carriers focus on driving adoption of wireless data.
- **AT&T, Verizon** and **TELUS** remain rated Outperform reflecting modest growth driven largely by wireless, which supports strong free cash flow generation. The stocks are attractively valued and offer investors high dividend yields.

## Key Observations Relative to Canada – Canada Data Pricing Cheaper for Light and Extremely Heavy Users

We compare data pricing in local currencies for smartphones and iPads in Chart 1 below and summarize the cost per MB pricing in Table 1.

### Key Points

Canadian data pricing at Bell (BCE-TSX, Market Perform) and Rogers (RCI.B-TSX, Outperform, covered by Tim Casey) now appear more affordable than U.S. pricing with \$15 iPad plans offering 250MB versus 200MB in the U.S. We highlight that TELUS (T-TSX, Outperform) offers 500MB or double the capacity for \$5 more.

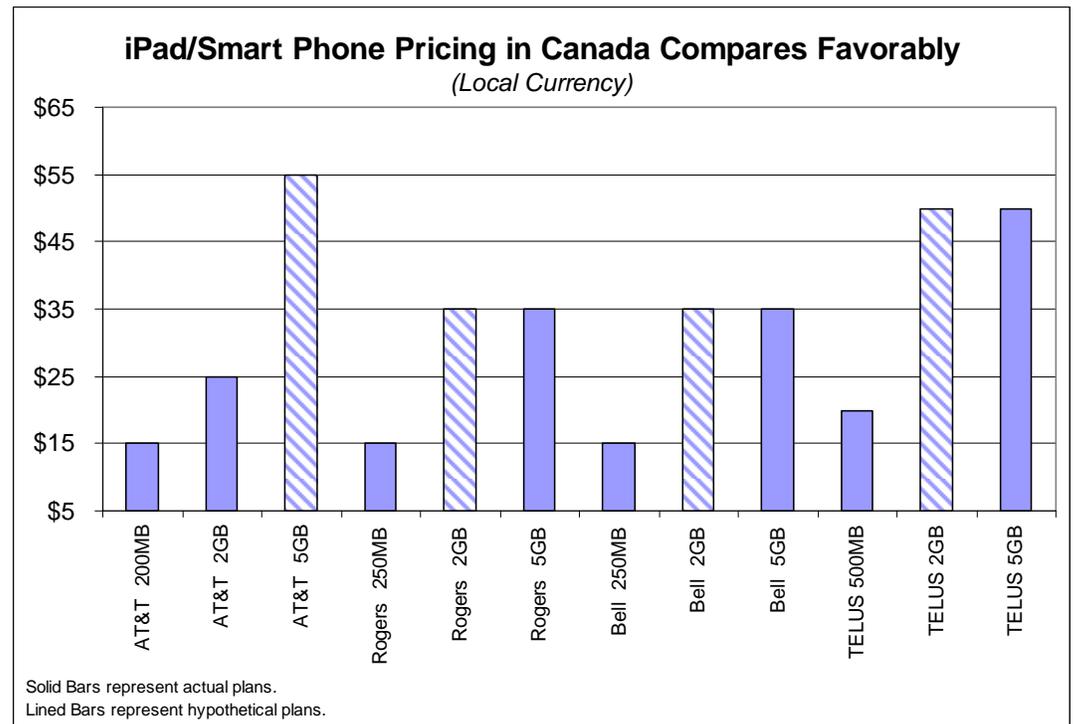
There is no 2GB package available in Canada to compare to AT&T's \$25 plan. As a result, a subscriber with usage of 2GB would have to subscribe to a Canadian \$35 5GB plan making Canadian plans more expensive than for AT&T customers.

For extremely heavy users (only 2% of AT&T customers use over 2GB), Canadian pricing is better than the U.S.

TELUS data pricing is higher for extremely heavy users but by offering \$20-500MB packages TELUS offers a more economic package for those users approaching 250MB of use, which likely represents the vast majority of users.

Although not listed here, data roaming prices remain prohibitively expensive in Canada and U.S. Canadian device costs at retail remain more expensive in some cases than in the U.S. (i.e., for Blackberry) despite the Canadian currency approaching par with the U.S. We also note that the pervasive use of 3-year plans in Canada versus 2-year plans in the U.S. conceivably leaves room for lower retail device costs in Canada going forward. These points noted, U.S. carriers benefit from larger scale, which may account for some of the pricing disparity.

Chart 1: iPad / Smartphone Pricing



Prices in local currencies.

Source: BMO Capital Markets, company websites

Table 1: Data Pricing

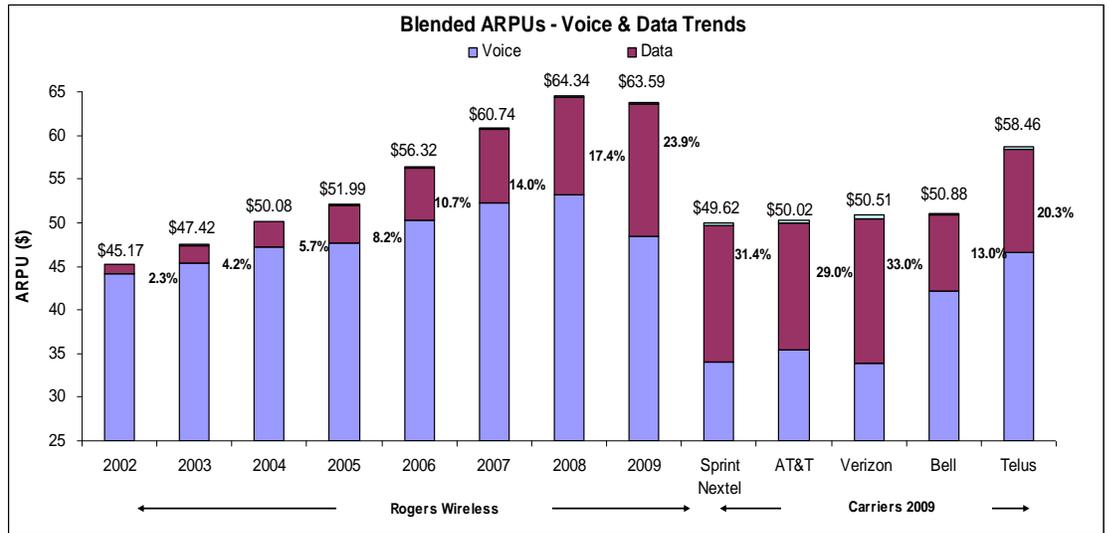
	\$ per MB Basis Based on Max. Usage				
	AT&T	Rogers	Bell	TELUS	Wind
<b>200MB</b>	<b>0.075</b>	0.075	0.075	0.100	0.100
<b>250MB</b>	0.120	<b>0.060</b>	<b>0.060</b>	0.080	0.080
<b>500MB</b>	0.050	0.070	0.070	<b>0.040</b>	<b>0.040</b>
<b>2GB</b>	<b>0.012</b>	0.017	0.017	0.024	0.017
<b>5GB</b>	0.011	<b>0.007</b>	<b>0.007</b>	<b>0.010</b>	0.007

At AT&T 65% of users use less than 200MB of data per month and 98% use less than 2GB.

Bolded values represent actual plans.

Source: BMO Capital Markets, company websites

**Chart 2: Wireless Revenue Mix – Canadian Data Penetration Lags**



Source: BMO Capital Markets, company reports.

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Sell	Underperform	3.9%	0%	0%	5.2%	3.6%	6%

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