

BACKGROUND

OCTOBER 2016

Sale of SaskTel

Core Issue: The Government of Saskatchewan is contemplating selling SaskTel. SaskTel is one of Saskatchewan's four major crown corporations, however, unlike the other large Crowns, SaskTel does not operate in a monopoly environment. Early talks regarding the sale indicate the province is looking to sell SaskTel for enough money to repay its \$4.1-billion operating debt.

Introduction

SaskTel is a full service communications provider in Saskatchewan. A crown corporation, SaskTel provides data and Internet services, wireless data services, maxTV services, data centre services, cloud-based services, security monitoring services, advertising services, and international software and consulting services. SaskTel has approximately 1.4 million customer connections including over 614,000 wireless accesses, 404,000 wireline network accesses, 266,000 Internet accesses and 107,000 maxTV™ subscribers.¹ SaskTel and its wholly-owned subsidiaries have a workforce of approximately 4,000 full-time equivalent employees.² SaskTel has annual revenues of \$1.26 billion and a net debt of \$861 million.³

In 2015/2016 SaskTel generated 39.3% of its revenue from wireless, 25.8% from maxTV, Internet, and Data, a little over 20% is from legacy voice services, including long distance; 5.6% from advertising, security and software, 5.2% from equipment, and 2% from other services.

As wireless makes up such a considerable amount of SaskTel's revenue, and represents its largest potential growth area, developments related to its future are crucial to the company. Canada's telecommunications industry is undergoing consolidation. Rogers bought Mobilicity in June 2015, and BCE, the parent company of Bell, reached an agreement to purchase MTS (Manitoba Telecom Services) for \$3.1 billion in May 2016. After this most recent deal, SaskTel stands alone as Canada's last publicly owned telephone utility and the company's future is in question.

Government of Saskatchewan Position

The Government of Saskatchewan has stated that it is open to considering offers for the sale of SaskTel. However, they have also said, any such offer must meet certain criteria. First, the province has indicated

¹ SaskTel. (n.d.). *Company information*. Retrieved from <https://www.sasktel.com/about-us/company-info/>

² Ibid.,

³ SaskTel. (2016, 06 30). *SaskTel 2015/16 Annual Report*. Retrieved from http://www.sasktel.com/wps/wcm/connect/2c92ca7a-d549-4337-b04d-fdd6540e249a/SaskTel+2015_16Annual_Report.pdf?MOD=AJPERES#page=67

that the offer should be enough to eliminate the province's operating debt, which is currently \$4.1 billion. This means an offer would actually have to be closer to \$5 billion because SaskTel has a net debt of \$861 million.⁴ Comparatively, the BCE deal to acquire MTS was \$3.1 billion with the assumption of MTS's net debt of approximately \$800 million.⁵

The government has also stated any offer must preserve the SaskTel jobs in Saskatchewan and improve service to customers. Finally, the government has indicated a preference for an outright sale of the company as opposed to an IPO.⁶

Legislation in Saskatchewan prevents the provincial government from being able to sell SaskTel, or any Crown Corporation, without the government first stating its intention through either an election or a referendum. Any decision on the future of SaskTel would therefore be taken to a referendum because it was not part of the previous election campaign platform.

Risks to SaskTel

In June 2016, SaskTel commissioned a report on the impact of the BCE/MTS transaction on SaskTel. According to the report, "the most fundamental risk arising from the BCE/MTS transaction to SaskTel is the possibility that reduced numbers of facilities-based carriers in Manitoba could lead government policy makers to create incentives for additional wireless competition to develop through lowered costs for new entrant spectrum or other measures. Such measures could reduce the costs for competitors and increase costs or restrict capacity expansion for SaskTel."⁷

Further to this, SaskTel's own future expansions are limited. The provincial government's Saskatchewan First policy requires Crown Corporations to focus their investments in Saskatchewan, as such, there is no opportunity for SaskTel to look for markets beyond its borders.

SaskTel has been successful in the highly competitive communications industry; however, its wireless market share has been slipping. At the end of 2013, SaskTel held about 68% of Saskatchewan's wireless market, compared to Bell with 12%, TELUS with 13% and Rogers with 8%. This was a decline of 3% from 2012 (71% market share) and a significant decline from the 78% it held at the end of 2010.⁸

SaskTel's net income has also been declining since 2010, "due to changes in the regulatory environment, rapid change in technology, wireless displacement, increased costs to deliver wireless devices, increased competition in the market place, and increased capital investment in order to compete as a facilities-

⁴ SaskTel. (2016, 06 30). *SaskTel 2015/16 Annual Report*. Retrieved from http://www.sasktel.com/wps/wcm/connect/2c92ca7a-d549-4337-b04d-fdd6540e249a/SaskTel+2015_16Annual_Report.pdf?MOD=AJPERES#page=67

⁵ Ibid.,

⁶ Vynck, G. D. (2016, 06 14). *Saskatchewan Premier Prefers Outright Sale to IPO for SaskTel*. Retrieved from Bloomberg News: <http://bloombergtv.ca/2016-06-14/news/saskatchewan-premier-prefers-outright-sale-to-ipo-for-sasktel/>

⁷ Mark H. Goldberg & Associates, Inc. (2016, 06). *Impact of BCE / MTS Transaction on SaskTel: A high level risk assessment*. Retrieved from <http://www.sasktel.com/wps/wcm/connect/fdbf26ad-ee29-4e65-8c80-194f662095a4/impact-of-bce-report.pdf?MOD=AJPERES>

⁸ Ibid.,

based provider.”⁹ Based on this changing marketplace, there is a risk that SaskTel’s net income will not support the level of dividends that it has been returning to the province in recent years.

Provincial Financial Impact

As illustrated by the chart below, over the past ten years, SaskTel has paid \$796.6 million dollars to the provincial government in dividends. An average of just under \$80 million per year. However, as noted above, competition and regulations are eroding SaskTel’s net income and, as such, its ability to provide the province with significant dividends appears to be slipping. It is reasonable to assume this number will trend downward.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015/16*
Net Income	\$72.5M	\$84.1M	\$115.7M	\$129M	\$155.2M	\$154M	\$129.6M	\$90.1M	\$76.4M	\$126.7M*
Dividend Declared	\$50M	\$30M	\$78.9M	\$103.2M	\$139.7M	\$138.6M	\$84.3M	\$81.1M	\$53.3M	\$37.5M

* additional three operating months as a result of a change in SaskTel’s year end from December 31 to March 31
 Source: SaskTel Annual Reports.

Comparatively, Saskatchewan’s debt servicing costs for 2016-17 are estimated at \$290 million. Of this, approximately \$218 million relates to the province’s operating debt.¹⁰ Debt servicing charges for Saskatchewan have fluctuated considerably in recent years, depending on debt amount and interest charges; in fact charges have dropped by over \$100 million since 2013. Based on this data, it is almost certain that Saskatchewan’s savings on interest costs would be greater than the dividends that SaskTel generates, assuming its operating debt could be paid off by the sale.

Consumer Financial Impact

SaskTel has been successful at keeping customer prices down in Saskatchewan. As illustrated by the chart below, SaskTel’s wireless rates are a bargain compared with other companies in other jurisdictions.

Saskatchewan, Alberta and Ontario Wireless Rates			
	SaskTel	Telus	Bell
Plan Details	Unlimited nation wide calling and 10GB of data	Unlimited nation wide calling and 10GB of data	Unlimited nation wide calling and 10GB of data
Saskatchewan Rate	\$75/mth	N/A	\$65/mth
Alberta Rate	N/A	\$135/mth	\$135/mth

⁹ Ibid.,

¹⁰ Hebert, B. (2016, 09 22). Assistant Deputy Minister, Revenue Division - Ministry of Finance . (K. McKee, Interviewer)

Ontario Rate	N/A	\$135/mth	\$135/mth
Plan Details	Unlimited nation wide calling and unlimited data (SaskTel data slowed down after 15GB)	Unlimited nation wide calling and 20GB of data	Unlimited nation wide calling and 15GB of data
Saskatchewan Rate	\$105/mth	N/A	\$75/mth
Alberta Rate	N/A	\$200/mth	\$175/mth
Ontario Rate	N/A	\$200/mth	\$175/mth
* Rates do not include any phone financing charges <i>Sources: SaskTel, Telus and Bell – September 2016</i>			

In addition to wireless affordability, and compared to other providers in other Canadian provinces, SaskTel has maintained low prices for other telephone and internet services.

Should the government of Saskatchewan decide to sell SaskTel to one of the three large, existing telecommunication companies in Canada, it is reasonable to assume that consumer prices in the province will increase to bring Saskatchewan prices in line with what is charged in the rest of Canada.

Considerations

SaskTel is a government-owned enterprise which competes directly against private sector firms. According to Saskatchewan government policy, SaskTel is supposed to operate as a normal commercial telecommunications company. However, competitors argue that SaskTel can compete unfairly against its private sector rivals, as it has access to lower-cost, government-guaranteed capital (debt) and is not necessarily required to meet the high standards for profit and cost control that private sector companies are.

In addition to considerations of an unbalanced playing field, one of the fundamental principles of the Saskatchewan Chamber of Commerce is controlling the scope of government. Specifically, the Chamber believes, if a thing is not necessary to do by public means, it is incumbent on public authority to restrain itself, so as to preserve the greatest possible scope for personal choice. It is clearly the case that many of SaskTel's activities are not necessary to do so by the public means; however, the practicality of a private provider voluntarily servicing some of Saskatchewan's rural and remote communities is unlikely. As such, a degree of government involvement to ensure the provision of services across the province will probably exist in any future system, and this role should be clearly determined before a decision is made on the sale of SaskTel.

Saskatchewan Chamber of Commerce Recommendation

The Saskatchewan Chamber of Commerce agrees with the provincial government that any sale of SaskTel must not only offer the province a significant financial benefit, but also take care of the existing SaskTel workforce, and improve coverage across the whole province. When, and if such an offer is made, additional due diligence must be done, including forecasting unknown potential increases in business costs for telephone, wireless, and internet services, as well as potential tax reductions due to the decrease in debt servicing charges.

Also, prior to concluding any sale of SaskTel, the Saskatchewan Chamber of Commerce recommends that the province conduct further consultations to determine the best use of the sale revenues to maximize the benefits returned to the businesses and residents of the province. The plan for revenue use should be clearly established and articulated well in advance of the completion of the sale.

Works Cited

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