Why Manitoba Telecom Services Inc Could Be the Next to Be Acquired

Description

Last week, **BCE Inc** (TSX: BCE)(NYSE: BCE) made headlines when it announced that it was going to acquire the 56% of **Bell Aliant Inc** (TSX: BA) that it didn't already own for nearly $4 billion, or $31 per share.

Income investors were disappointed with the news, since shares of Atlantic Canada's largest telecom provider offered them a fairly safe dividend of nearly 7%. Bell Aliant Inc wasn't going to grow much, but the company delivered solid income, had a strong competitive advantage, and was a steady performer.

Yield-oriented investors could simply switch over their Bell Aliant shares into BCE shares, but there are a couple of small issues with that. First of all, BCE's shares yield only 5%. That's still a generous dividend with a history of impressive growth, but it's not up to par with what Bell Aliant was paying. Secondly, BCE has more moving parts than Bell Aliant. Aliant is a pure telecom company, while BCE has a large media division. Depending on your perspective, BCE's media parts can either be an asset or a liability.

Plus, investors who held Bell Aliant knew there was always a chance that the parent company would eventually acquire their shares. There's no chance of that happening for BCE.

The good news for investors is that there's another regional telecom that pays a generous dividend, is a steady performer, and comes with the added bonus of being a potential takeout candidate. That company is **Manitoba Telecom Services Inc** (TSX: MBT).

Manitoba Telecom Services Inc is a full-service telecom company operating primarily in the province of Manitoba. It provides customers with wireless, home phone, internet, and television services. Through its Allstream division, the company seeks to provide businesses across the country with a full range of IT services.

Back in 2013, Manitoba Telecom Services made headlines when it agreed to a sale of Allstream to Accelero, an Egyptian investor fund specializing in telecoms. Accelero already owns Wind Mobile, an upstart competitor in Canada's wireless space. The deal was valued at $520 million.

Alas, it was not to be; a few months later the government rejected the deal, citing "unspecified security concerns." Allstream had been struggling, and investors were hoping that an influx of cash would be used to increase shareholder value, either by increasing the dividend or buying back shares.

However, the Allstream division has recovered, at least somewhat. The company just released quarterly results that saw Allstream grow revenue by 11%, and almost double EBITDA to nearly $25 million. That pales in comparison to the traditional telecom division's EBITDA of nearly $120 million, but it's a step in the right direction.

Ideally, Manitoba Telecom Services would sell its Allstream division to make the company more attractive to either **Telus Corporation** (TSX: T)(NYSE: TU) or **Rogers Communications Inc.** (TSX: RCI.B)(NYSE: RCI). It's likely both of those companies would be interested in the pure telecom that would remain. Telus seems like the more likely choice, though, simply because of its greater presence in the west.

Over the past week, shares in the company are up nearly 3% as investors speculate that it will be the next to be taken over. There's obviously no guarantee this will even happen, but if investors buy now, they're looking at a steady 5.2% dividend. There are other positive factors, including aggressive cost cutting, an increase in average revenue per user, and those steadily improving Allstream results.

If you combine those factors with a chance of being bought out, the shares don't look too bad at these levels. I'd never recommend that investors buy a company hoping for a takeover, but there's certainly merit in buying a solid regional operator like Manitoba Telecom Services. The takeover potential is just a bonus.

CATEGORY

1. Investing

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1. TSX:BCE (BCE Inc.)
2. TSX:RCI.B (Rogers Communications Inc.)
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