



Why the Shaw Communications Inc and Rogers Communications Inc. Wireless Deal Is in Jeopardy

Description

In 2008, **Shaw Communications Inc** ([TSX: SJR.B](#))([NYSE: SJR](#)) spent \$189.5 million purchasing wireless spectrum from the federal government, which covered Northern Ontario, Manitoba, Saskatchewan, Alberta, and B.C. At the time, the company's plan was to use its brand strength out west to diversify into the world of wireless, taking on the incumbents.

For years, the company sat on its spectrum. After estimating in 2011 that it would take more than \$1 billion just to roll out the network — not to mention the costs of setting up hundreds of retail locations to sell to consumers — Shaw quietly closed the book on its wireless story. It chose to focus its attention on setting up thousands of Wi-Fi locations across the west instead, trying to strengthen its internet service by giving customers access to fast, secure Wi-Fi on the go.

In 2012 Shaw made it official, entering into a deal with **Rogers Communications Inc.** ([TSX: RCI.B](#))([NYSE: RCI](#)) that gave Rogers the option to acquire Shaw's spectrum. Financial details of the deal haven't been announced, but it's believed that Rogers would pay \$300 million for it. Rogers has already given Shaw a non-refundable \$50 million deposit as a show of good faith.

When Shaw bought the spectrum in 2008, the rules that the federal government had set out were relatively simple. If Shaw chose not to use it, it could sell the spectrum to any telecom player it chose, whether it was a new player or incumbent, provided five years had passed.

Now? Things aren't quite so simple. The federal government has made it clear that it doesn't want the so-called big three telecom companies further expanding their networks. **Telus Corporation** ([TSX: T](#))([NYSE: TU](#)) has tried three times to buy Mobilicity, each time getting blocked by the feds. Currently, Mobilicity is in creditor protection.

If the federal government blocks the sale of this spectrum to Rogers, what are Shaw's options?

The most obvious solution is to enter into some sort of partnership with **Quebecor Inc.** ([TSX: QBR.B](#)), which already has a wireless presence in Quebec, and recently bought spectrum across the most

populous parts of the rest of the country. But Shaw already balked once at building a network, so it's likely not going to go down that path. Quebecor could buy Shaw's spectrum, but it already has a stretched balance sheet, and that will just add to the cost of what's already going to be an expensive rollout.

The Canadian government is all but rolling out the welcome mat for a foreign competitor to acquire spectrum from Mobilicity and Wind Mobile. If a foreign presence does enter the Canadian market, analysts think it's likely that Shaw sells its spectrum to this new buyer. But is it as valuable to a new player? Probably not. The sale price in that situation could be 40-50% less than a sale to Rogers.

How much will this affect Shaw's shareholders? Ultimately, not much. Shaw has a market cap of \$12.6 billion. If the company ends up not getting a dime for its spectrum (which is possible if it doesn't use it within 10 years of purchase), that's only a loss of approximately 70 cents a share based on the \$300 million Rogers is rumoured to be willing to pay.

Still, it matters. Many Shaw shareholders wouldn't mind the sale being used as an excuse to increase the company's dividend, which currently stands at 4.05%. I don't care how big a company is, \$300 million isn't chump change.

Will Shaw be able to complete the sale of its wireless spectrum? At this point, all signs point to no. And in the short term, it will affect the stock. Investors looking to pick up or add to their Shaw holdings would be better off to wait, at least a little while.

CATEGORY

1. Investing

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1. NYSE:RCI (Rogers Communications Inc.)
2. NYSE:SJR (Shaw Communications Inc.)
3. TSX:QBR.B (Quebecor Inc.)
4. TSX:RCI.B (Rogers Communications Inc.)
5. TSX:SJR.B (Shaw Communications)
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