3 Reasons Why Rogers Communications Inc. and Shaw Communications Inc. Should Merge

Description

When **BCE Inc.** (TSX: BCE)(NYSE: BCE) agreed to acquire the 56% of **Bell Aliant Inc.** (TSX: BA) it didn't already own, it was widely cheered by the market. Analysts and investors alike always assumed it would only be a matter of time before BCE took its former spinoff back under the fold.

Bell Aliant investors were rewarded handsomely, as shares surged close to 15% on the news. That's good news for Bell Aliant shareholders, even though I'm sure at least a few will miss the company's generous dividend, which regularly paid more than 7% before the acquisition was announced.

Not only does this acquisition add to BCE's bottom line — by at least $300 million a year, according to analysts — but it also serves another purpose: It puts pressure on the rest of the sector to keep pace, to do something to one-up the competition.

And I think I have the solution, at least for two other players in the sector.

Rogers Communications Inc. (TSX: RCI.B)(NYSE: RCI) and **Shaw Communications Inc.** (TSX: SJR.B)(NYSE: SJR) should merge.

I think it's a great idea. Here are three reasons why these two telecommunication powerhouses should get together.

1. Dream synergies

Rogers and Shaw both complement each other extremely well.

Shaw provides television, phone, and Internet service to customers in western Canada. Rogers provides television, phone, and Internet service to customers in Ontario. There's no geographical overlap at all. Rogers owns dozens of media properties, including such popular television stations as CityTV, Sportsnet, The Shopping Channel, and many others. Shaw also owns media properties, including Global, The History Channel, and The Food Network.

2. Bundling advantages

One of the reasons why I went with **Telus Corporation**'s (TSX: T)(NYSE: TU) television service was because I already used the company for my wireless phone and Internet. Getting an additional bundle discount was enticing.

One major weakness of Shaw Communications is its non-exposure to wireless. The company did contemplate entering the market back in 2008 (going as far as buying wireless spectrum, which it has since agreed to sell to Rogers), but ultimately decided it would be too expensive to roll out a competitive wireless service. It then switched its focus to building a network of 30,000 locations across the west, where its Internet customers could get reliable service while away from home.

Shaw currently has 3.3 million subscribers of its various services. Sure, some of them are already going to use Rogers as their wireless provider, but there's a lot of potential Telus and BCE wireless customers who could be persuaded to switch. They'd be easy pickings for a combined Rogers and Shaw.

3. Increasing cooperation

Recently, Rogers and Shaw teamed up to announce Shomi, a Netflix-like video-on-demand service available to cable customers of both companies.

As previously mentioned, Rogers agreed to buy Shaw's unused wireless spectrum, a deal that is expected to close sometime this month, assuming the federal government approves it. As part of that deal, Shaw agreed to sell Mountain Cable, a small operator it owns in Hamilton, back to Rogers.

It's obvious the two companies are working closely together, and management teams are friendly with each other. That's half the battle when it comes to a friendly takeover. Are these small deals working up to something much bigger?

Sure, question marks remain, but it's obvious that Shaw and Rogers should get together. It would be a nice geographic fit, and the opportunity to add Rogers' wireless plans to a Shaw bundle will be attractive to consumers. This deal makes a ton of sense.

CATEGORY

1. Investing

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2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:SJR (Shaw Communications Inc.)
4. NYSE:TU (TELUS)
5. TSX:BCE (BCE Inc.)
6. TSX:RCI.B (Rogers Communications Inc.)
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