



1 Surprising Reason to Be Bullish on Shaw Communications Inc. and Rogers Communications Inc.

Description

There are certain things that belong together.

Peanut butter and jelly. Vanilla ice cream and hot fudge. Pumpkin pie and whipped cream. And since it's the holiday season, let's go with a fresh coat of snow and Christmas morning.

There's one more match made in heaven that, the more I think about it, the more it makes sense. And unlike the others, I think it's one that could potentially bring some nice profits for everyone involved.

I think **Rogers Communications Inc.** ([TSX: RCI.B](#))([NYSE: RCI](#)) and **Shaw Communications Inc.** ([TSX: SJR.B](#))([NYSE: SJR](#)) should merge. Here's why these two great companies would be even better together.

Geographic footprint

Shaw provides internet, home phone, and television services to Western Canada, boasting 3.3 million connections. Rogers provides internet, home phone, and television services to customers in Ontario, as well as wireless services coast to coast.

The two companies complement each other perfectly. Plus, Shaw recently sold its foray into the Ontario cable market back to Rogers, severing ties completely with the province. It's almost like they're planning this.

Joint ventures

It's no secret that younger customers are increasingly cutting the cord on cable in favor of other online alternatives, namely **Netflix**. This isn't a huge concern for the incumbents at this point, because they're able to raise prices quickly enough to offset cord-cutters.

As the old saying goes, if you can't beat 'em, join 'em. Rogers and Shaw have teamed up to offer customers a service called Shomi. For \$8 per month, cable customers get access to many shows and

movies not available in Netflix's library.

While Shomi isn't off to a blistering start — possibly because most folks already have PVRs that record their favorite shows while plenty of others have both Netflix and cable already — the important part is the two companies are cooperating on high-level projects.

Previous deals

In 2008, Shaw snapped up some wireless spectrum, gung-ho about joining the incumbents in the uber-competitive Canadian cell phone market.

After crunching the numbers a little more, the company decided wireless wasn't a good idea. So it took the capital it previously earmarked for its new venture and spent it on a series of some 45,000 wifi hotspots across Western Canada. These hotspots have proven popular with customers, helping grow the company's internet business.

Without a use for the spectrum, Shaw and Rogers quickly came up with a deal. As soon as the feds would approve it, Rogers would buy out Shaw's interest for \$1 billion.

Word is Ottawa has been dragging its feet on approving this deal, preferring a sale of the spectrum to a foreign competitor which would compete with incumbents. Besides rumblings of **Verizon** entering Canada in 2013, that's been a pretty quiet front.

Strong family connections

Although Edward Rogers was passed over for the top job at Rogers Communications, there's little doubt he and sister Melinda are still pretty influential members of the top brass.

Meanwhile, the Shaw family is still firmly in control of their namesake company, recently passing the reins from one generation to the next.

It's well known each family respects the other greatly, and both companies have a history of doing big deals. The next logical step is to do a deal together.

Just do it already

I'm not the first to speculate about Rogers and Shaw getting together. This has been a hot and cold rumor for years now. It seems likely that this marriage will eventually happen.

But if it doesn't, both of these companies are great pieces for your portfolio. Both have outstanding moats in place, millions of satisfied customers, and extremely profitable businesses. Each also pay nice dividends.

Together, the two companies could be even stronger. But instead of betting on a merger, think of it as a special bonus. It'll be nice if it happens, but it's probably best not to count on it.

CATEGORY

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2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:SJR (Shaw Communications Inc.)
4. TSX:RCI.B (Rogers Communications Inc.)
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Date

2025/07/05

Date Created

2014/12/18

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