Why BCE Inc. and Rogers Communications Inc. Bundled Together to Buy Glentel Inc.

Description

The cellphone industry here in Canada has been considered “mature” for some time now, and this has forced telecoms to get creative to maintain revenues. Some telecoms have launched TV streaming services, while others have shifted their sports portfolios to mobile platforms, all in an attempt to secure revenues streams.

This brings us to **Glentel Inc.** (TSX:GLN). Most people won’t recognize the name but many will recognize mall staples such as Wirelesswave, T-booth Wireless, and Wireless Etc, all of which are owned and operated by Glentel. Back in November, in an effort to boost revenues, **BCE Inc.** (TSX:BCE)(NYSE:BCE) announced that it would be purchasing Glentel for $594 million in a half cash and half stock deal.

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI) immediately went to court to try to block the deal as it was concerned that a BCE-owned Glentel would remove any Rogers and Fido products from its kiosks. It has just been released that Rogers will now become a partner along with BCE Inc. in the new Glentel.

Under this corporate bundling agreement, BCE will pay $594 million ($297 million in cash) up front and assume Glentel’s net debt of $78 million. Rogers will then pay BCE Inc. $392 million for its half of the company. For BCE Inc., this deal with Rogers will lower the net cost of its 50% stake in the company to $202 million.

Who is Glentel?

Glentel may not be a common name to Canadian investors, but it does manage to post over $1 billion in revenues per year. It also has a sizable retail footprint with 368 locations in Canada, 735 locations in the U.S., and 147 locations spread through the Philippines and Australia. One critical downfall to Glentel has been its net income, which only totalled $5.8 million in the previous quarter despite $401 million in total sales.

That number gets even worse when we look at the past three quarters combined, which showed a net income of $5.4 million despite $1.1 billion in sales. A good portion of the lacking net income can be attributed to its expansion into 126 **Target** Canada locations, which will now be considered a total loss.

The benefits

BCE Inc. and Rogers are already carried by Glentel’s Canadian locations, so there will be little room for increased sales, but this does cut out the middle man and allows for higher margins. BCE Inc. and Rogers are currently the main brands being offered by Glentel, along with its sub-brands, Virgin Mobile, Fido, and Chatr. There is concern that in the long run this could hinder efforts by Wind Mobile, Mobilicity, or a fourth national carrier to increase its retail presence in Canada.

This could be the more likely scenario as Glentel has proven over a number of years that it has trouble turning a profit. For investors, this acquisition and subsequent partnership should be seen as an attempt by both Rogers and BCE Inc. to protect their market share in the cellular industry.

This isn’t all too surprising as we have seen an increasing number of telecom partnerships, all with the primary goal of limiting competition from Canada and abroad. In the future, we should continue to expect these types of strategies to emerge as telecoms will be forced to find more alternative sources of revenues to protect their stock prices.

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Date
2025/08/25
Date Created
2015/02/11
Author
cameronconway