



## Is the \$1.6 Billion Wind Mobile Deal a Good Buy for Shaw Communications Inc.?

### Description

**Shaw Communications Inc.** ([TSX:SJR.B](#))([NYSE:SJR](#)) made headlines on Wednesday evening after it agreed to buy Wind Mobile for \$1.6 billion.

Although Wind is dwarfed in size by Canada's Big Three telecoms, the company has carved out a nice niche in the wireless market. Wind is currently active in Ontario, B.C., and Alberta, accumulating almost one million subscribers.

Just about all of Wind's subscriber base is in large cities. Wind only owns spectrum that covers these geographic areas. When a customer leaves the city, Wind piggybacks the service of one of the other carriers.

Wind's big selling point has always been price. The company currently offers subscribers unlimited calling, texting, and Internet packages for \$35 per month with one catch: once customers go over a certain data cap, download speeds are throttled down.

It's obvious what Shaw saw in Wind. Shaw has long been interested in entering Canada's wireless market. It knows it's losing customers to other carriers because they want the simplicity of having all of their services with one carrier. When the Wind deal closes—which is expected sometime in the third quarter of 2016—Shaw will be able to offer that to some of its customers. I assume that a Shaw-owned Wind would then work on expanding its network to other areas.

While the deal makes sense on the surface, I have some doubts about it. My doubts are not so much about the deal itself, but how it works into Shaw's long-term plans.

### Why wireless?

Shaw likes the wireless business because it's actually growing, while two of Shaw's three major services are experiencing slow declines. Customers are cutting the cable cord, choosing to watch their favourite shows online. And home phone customers are leaving en masse. These are both problems that don't look to be going away.

What I question is Shaw's overall strategy. If you remember, Shaw first made an attempt to enter Canada's wireless market back in 2008 when it bought wireless spectrum that covers western Canada and northern Ontario.

By 2012, Shaw had completely abandoned its plans to enter the wireless market. The company figured it would cost billions to roll out a network that was comparable to what its competitors were offering, money that would have to be raised via debt financing. With its traditional businesses facing slow declines even back then, Shaw decided it wouldn't be worth the trouble. The spectrum was sold to **Rogers Communications** and the company moved on. This deal was only finalized earlier this year.

There's no doubt that spectrum would be valuable to the company now.

Shaw's management thought that getting into the wireless business would be easier if it bought an established company. Perhaps that's true, but the company still has a long way to go before Wind is a true fourth player.

It's not so much the decision to get into wireless that I question. It's the lack of consistent strategy. It's very strange that Shaw would jump back into the wireless fray so quickly after selling spectrum. It almost strikes me as a move a company with poor long-term planning makes.

Besides, I think there's a much more obvious acquisition sitting right underneath Shaw's nose that it's missing out on. **Corus Entertainment Inc.** ([TSX:CJR.B](#)) is already controlled by the Shaw family via multiple voting shares. It was spun out of Shaw in 2000, and with Shaw's recent re-entry into the media business, an acquisition of Corus would result in some nice synergies.

Corus shares are also ridiculously cheap. They trade at under five times trailing free cash flow and are also substantially under book value. The stock pays an 11% dividend, which only works out to approximately 40% of free cash flow.

Shaw buying Wind is going to make Canada's wireless picture a little more interesting. I'm just not sure I trust the current management team to make Wind a true coast-to-coast carrier. It's going to be a long grind for Shaw to gain market share against established incumbents. It should be interesting, if anything.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:SJR (Shaw Communications Inc.)
2. TSX:CJR.B (Corus Entertainment Inc.)
3. TSX:SJR.B (Shaw Communications)

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