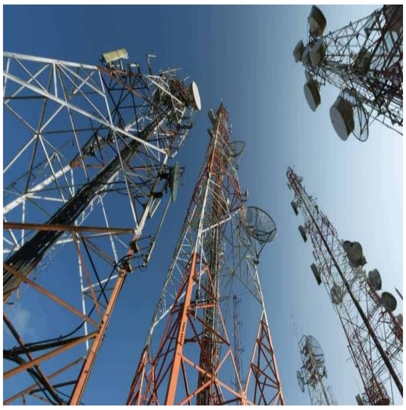

Here's a Canadian Telecom Dilemma

Description

Earlier this week, investors were treated to the first major (and likely largest) M&A announcement of the year. **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) made an offer for **Shaw Communications** (TSX:SJR.B)(NYSE:SJR). This is the Canadian telecom dilemma that investors need to navigate.

More about that deal (and why everyone is watching)

The deal includes a cash offering of $40.50 per share to Shaw shareholders. This represents a handsome premium over where Shaw traded just last week. For the Shaw family, most of that compensation would come in the form of Rogers stock as well as two seats on the company board.

Once all is done, Rogers's already impressive (and massive) wireless segment would consume Shaw's Freedom Mobile segment. The combined wireless segment would have well over 12 million subscribers and a nationwide network blanketing the country.

Rogers also sees the deal as a necessary one to build out a solid 5G network to all of Canada. The company also sees this as a springboard to continue the trend of falling data rates. Rogers stated the (combined) company would drop $2.5 billion on building a 5G network in western Canada. An additional $3 billion is earmarked towards network and technology upgrades.

The Canadian telecom dilemma

Unfortunately, here's the problem with Rogers and why this really is a Canadian telecom dilemma.

In short, Canada is huge. But for all that landmass, we have a tiny population. Building a wireless network over large areas requires a lot of capital, which is something only a handful of carriers can do on a national scale. Shaw started Freedom Mobile on the ashes of what was once Wind Mobile and has been investing heavily in growing its network to be a national competitor.

For well over a decade, regulatory bodies have been trying to shore up a solid fourth player in the Canadian telecom market. Wireless auctions set aside spectrum for new and smaller players to bid on. For Shaw, those auctions were nothing short of a buying frenzy for Freedom Mobile. To assume that regulatory bodies will simply shrug at this move by Rogers to ingest Shaw is unlikely.

Shaw is also fiercely competitive with Rogers in the markets where it does have coverage, offering better data allowances, rates, and better customer service. Shaw also boasts contract-free plans, which is something the other telecoms were very reluctant to offer subscribers for years. Those customers may not want to the higher rates associated with Rogers.

To assume that Rogers will keep Shaw's data caps and rates in place indefinitely is unlikely. Rogers has so far committed to a three-year lock-in period for those existing rates. This would also reduce, if not eliminate both competition and the need to continue to drive data rates lower.

Is this a done deal?

This isn't the first time that Rogers and Shaw have struck a deal together. The telecoms swapped customers and provinces years ago. Back then, Shaw focused on the western provinces while Rogers fortified itself in Ontario. Unfortunately, this deal is infinitely more complicated and will have lasting effects on the telecom market. Hence the Canadian telecom dilemma I noted above.

The deal is not expected to close until the first half of 2022, as it's subject to multiple approvals — specifically, the Competition Bureau, CRTC, and Ministry of Innovation, Science, and Economic Development will all weigh in on the deal.

Until that decision comes, I'll keep enjoying everything that Shaw has to offer, including its juicy monthly dividend.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/20
Date Created
2021/03/16
Author
dafxentiou