Rogers Communications Buying Shaw: What Should Shaw Investors Do?

Description

Shaw Communications (TSX:SJR.B)(NYSE:SJR) shareholders are faced with a tough decision. The telecom stock rocketed more than 40% yesterday on news that its bigger competitor, **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) plans to buy it out.

The deal is valued at $26 billion, including the assumption of about $6 billion of debt. The two telecoms believe their marriage will be a win-win situation because they would be able to combine their resources to accelerate the 5G rollout in Canada.

Rogers believes synergies could exceed $1 billion annually within two years of closing the merger, and that the transaction will be significantly accretive to earnings and cash flow on a per-share basis as of the first year after closing.

Rogers also believes that the merger will allow it to reduce its payout ratio to less than 30% within two years of closing the merger. In comparison, its five-year payout ratio is about 54%. So, the merger is expected to greatly improve the safety of its dividend and perhaps allow it to get back onto the track of consistent dividend growth a few years down the road.

What should Shaw Communications shareholders do?

In the deal, Rogers plans to pay Shaw shareholders cold, hard cash of $40.50 per share. This is a substantial 69% premium to where the stock closed on Friday. However, Shaw stock only closed the day at $33.85 per share on Monday.

Why is Shaw stock not trading even close to $40? The reason is simple. The merger isn't expected to complete until the first half of 2022. There's still another year of waiting until then. And of course, anything can happen between now and then.

Shaw shareholders are faced with a tough decision. Should they hold the shares and wait for upside potential of close to 20% should the deal be completed in about a year? Or should they sell the shares after the +40% rally and move on to something else? If they choose to sell, they'll need to look for another income investment that would replace Shaw's reassuring monthly dividend.

Retail investors of Shaw shares might look to the Shaw family shares as a guide. The Shaw family is getting a stock-cash deal. About 60% of the Shaw family shares will be converted to Rogers Class B shares.

Rogers stock only appreciated about 3% on the news. If the merger is as good as the companies think it is, then Rogers stock is not a bad option, as a replacement for Shaw in a diversified stock portfolio. The stock trades at a reasonable valuation and has long-term growth potential for those looking for stable growth and safe dividend income. Roger's recent yield is 3.36%, and it pays a quarterly dividend.

The Rogers-Shaw merger is not a done deal yet

A number of approvals are required for the deal to happen. The biggest hurdles would probably come from Canadian regulators, including the Competition Bureau, the Ministry of Innovation, Science and Economic Development (ISED), and the Canadian Radio-television and Telecommunications Commission (CRTC).

There's little overlap between the cable and internet operations of the two companies, which are in western and eastern Canada, respectively. Regulators are therefore more likely to give Rogers a hard time with regard to the combination of their wireless businesses. Some divestment might be needed for the deal to happen.

In summary

After the run-up, Shaw is fully valued for the near term and now yields 3.5%. Shaw shareholders need to decide whether they would take the risk to wait for the merger to potentially happen a year later for a roughly 20% upside or sell their stake in Shaw now and reallocate the capital elsewhere.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

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
3. Stocks for Beginners

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