The Rogers-Shaw Merger Could Create a Dividend Bonanza

Description

Canada's oligopolistic telecom sector is looking for even more consolidation. **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) has signed a deal to buy **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) in a deal valued at $26 billion, including debt. The deal would effectively allow Rogers to expand its lead over rivals, cement its position as Canada's largest telecommunications giant, and create a windfall for investors.

Here's a closer look.

Rogers-Shaw merger details

Canada's three largest telecom companies control 80% of the market. This is why these companies are some of the most profitable and why Canada's wireless prices are some of the highest in the world. The Canadian market is structured as an oligopoly. A handful of players have unparalleled pricing power.

Shaw emerged as a competitor that could finally offer some relief. The company's subsidiary, Freedom Mobile, has been credited with lowering prices of data costs since 2017. Competitive pricing helped Shaw accumulate more subscribers. The company is now the fourth-largest telecom giant in Canada.

The Rogers-Shaw merger would effectively combine the largest and fourth-largest players, creating a super giant with *even more pricing power.* This is why the merger deal needs to get three approvals — at the CRTC, at Innovation Canada, and through the Competition Bureau.

"But we feel confident this transaction will be approved," Rogers CEO Joe Natale told analysts this week. Natale said it was too early to speculate whether the company will have to give up any assets as part of the deal. However, he pledged not to raise the prices of current Freedom Mobile customers for three years.

Rogers fundamentals

Rogers currently has 10 million wireless subscribers. Post-approval, the company will add 1.7 million more subscribers. The combined entity would control 39% of Canada's wireless market. Meanwhile, the combined cable and internet businesses would cover most of Canada's serviceable market.

Effectively, this gives Rogers an opportunity to boost revenue and cash flow. The company already generates more in earnings than it needs to pay out in dividends. The dividend payout ratio is 63.9%. The stock trades at 20 times earnings per share and offers a 3.4% dividend yield.

The Shaw acquisition isn't a done deal yet. The merger is likely to be approved and completed by early 2022. Synergies could help Rogers lower costs and expand cash flow. This means investors should expect the dividends to expand over time. If you're a conservative investor looking for steady dividends, Rogers stock is certainly worth a closer look.

Bottom line

Canada's largest and fourth-largest telecom companies are looking to merge. Rogers is willing to offer a premium to acquire Shaw. However, Rogers will cover the costs when their market lead widens. With better pricing power and a stranglehold on the telecom market, Rogers could accelerate cash flows.

The chances of the deal going through are relatively high. Rogers investors should expect a dividend bonanza in the years ahead.

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