



Will the Rogers-Shaw Communications Merger See the Light of the Day?

Description

Rogers Communications ([TSX:RCI.B](#))([NYSE:RCI](#)), the country's biggest telecom company by subscribers, agreed to combine with peer **Shaw Communications** ([TSX:SJR.B](#))([NYSE:SJR](#)) last week. While the merger came as no surprise for many, the premium that Rogers agreed to pay certainly raised eyebrows. The deal has a price tag of \$26 billion, which is a 70% premium from Shaw's closing price on March 12.

Shaw agreed to combine with Rogers Communications

The deal is coming at an interesting time when corporate investment cycles are just about getting started after the pandemic. Also, the combined entity will likely serve a significantly larger customer base compared to peers in the early stage of the [5G revolution](#).

However, Rogers and Shaw expect the deal to complete by the first half of next year. The delayed deadline indicates the complexity of the merger and regulatory uncertainties. Shaw's wireless business Freedom Mobile could be the thorn, which decides the multi-billion-dollar deal's fate.

Rogers-Shaw Communications merger: Deal or no deal?

After **BCE**, **Telus**, and Rogers, Freedom Mobile is the fourth-largest wireless carrier in Canada with almost two million subscribers. Industry experts opposing the deal say that it would destroy the competition, as the fourth player will be eliminated. Consumers will be left with fewer options and might end up paying higher fees.

However, Freedom Mobile caters to just 5% of the total Canadian wireless subscribers. Its smaller market share might not make a meaningful difference in denting the competition. Also, Shaw generates more than three-fourths of its revenues from wireline operations. So, the Competition Bureau might not have sufficient ground to block the deal. Besides, the combined entity is [expected](#) to create 3,000 net new jobs.

The Canadian telecom industry is already concentrated

Before passing the deal, the competition commission will most likely analyze two things. First is how concentrated the industry gets post-merger and will it really raise prices. My back-of-the-envelope calculation for HHI (Herfindahl–Hirschman Index), a popular measure of industry concentration, shows that Canada's telecom market is already highly concentrated. The deal might not increase the concentration substantially, but the competition bureau will play a pivotal role in passing the deal.

T-Mobile and Sprint merger in the U.S. took two years, as it struggled to get the necessary regulatory approvals. The deal between the third- and fourth-biggest telecom players in the U.S. faced long delays amid hurting competition concerns.

Rogers plans to invest \$6.5 billion in the next few years to build 5G infrastructure and network improvements. Notably, almost all peer telecom companies have upped their capital expenditure plans to stay competitive in the 5G race. Interestingly, wireless subscribers of all service providers will most likely pay higher because of the improved services and better quality in the next few years.

Bottom line

The merger uncertainties might be behind the Shaw stock's recent weakness. The stock never touched the agreed-upon price of \$40.5 and is currently lingering around \$33 levels.

The future of the merger going through seems nicely balanced at the moment. Rogers is taking an immense risk by taking a \$19 billion debt to close the deal, which will increase its leverage substantially. Only time will tell whether the deal goes through or not. However, that puts BCE and Telus, which are focusing on organic growth, in a better position to reap the benefits of potentially lower competition.

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