



## Why the Rogers-Shaw Deal Is Likely to Be Approved

### Description

**Shaw Communications** (TSX SJR.B)([NYSE:SJR](#)) stock has been soaring of late. Indeed, an acquisition offer will do that.

Of course, the [takeover bid](#) by **Rogers Communications** ([TSX:RCI.B](#))([NYSE:RCI](#)) to acquire Shaw was a massive one. This has rightly gotten a lot of investors giddy about these [5G plays](#) right now. In most investors' minds, more consolidation is better. The bigger the players, the bigger the pricing power and long-term earnings potential of the combined entity.

However, there's a lot of speculation right now around whether this merger will ultimately go through. That said, I believe that this deal is more likely than not to pass regulatory scrutiny. Let's talk through some of the reasons why this deal could likely receive approval.

### Regulatory hurdles problematic, but not dire

Canada's telecommunications industry is set to embrace the 5G revolution. Accordingly, big players are making massive investments to upgrade their networks to this new technology. However, the CEO of Shaw Communications, Brad Shaw, revealed that this company doesn't have the ability to do so alone. Hence, Shaw accepted the takeover bid from Rogers worth \$20.4 billion.

Nevertheless, any deal this size will be put through the wringer. Certainly, a great deal of regulatory scrutiny will be involved in the deal. If regulators feel that the Canadian consumer could be negatively impacted by the deal, there may be some significant divestitures required. According to Francois-Philippe Champagne, the minister of innovation, science, and industry, the evaluation of this deal will be done keeping in mind reasonable pricing, innovation, and competition in the telecommunication industry. In plain English: if the deal isn't good for the sector, it's not going to happen.

That said, Canada's telecom industry has always been an oligopoly. Shaw has been the smallest player in the Big Four for some time. I think the deal will ultimately get done, likely with some spin-offs. Indeed, recent reports were that speculation of a bidding war for Shaw's Freedom Mobile business was heating up. That's likely mostly premature speculation, but something that could certainly materialize.

At the end of the day, I think regulators will view this deal as strengthening the industry and stabilizing Canadian jobs. It's the main reason other massive acquisitions have been pushed through of late. As long as this doesn't violate the competitive nature of the market (which really isn't all that competitive to begin with), it'll go through.

## Rogers upgraded by RBC analyst on this deal

Drew McReynolds, an analyst at RBC believes that this acquisition deal before is enthralling, especially for Shaw Communications.

He seems to believe this deal could result in the upgrade of much-needed fibre infrastructure in Western Canada. This will be viewed as a necessity to progress the 5G rollout across the country. Additionally, the combined capacity and capabilities of the combined firm would be beneficial to both parties. This increased scale of operations could be pivotal in ensuring the sustained investment in 5G Canada needs.

The combined entity will also likely have an easier time raising money to advance these goals. Accordingly, McReynolds kept an outperform rating for Rogers Communications stock and increased his price target from \$70 to \$74.

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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)

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## **Author**

chrismacdonald

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