Rogers Communications-Shaw Merger: Deal or No Deal?

Description

It's just been a few weeks, and the criticism over Canada's one of the biggest M&A deals is reaching its peak. **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) agreed to combine with **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) in a $26 billion deal last month. The camp opposing the deal has grown recently, highlighting the tough road for the involved parties ahead.

Rogers-Shaw merger: Uncertainty grows

The main hindrance to the deal is the approval from the Competition Bureau. The Canadian wireless industry has three well-established players with a significant market share. Shaw Communication's subsidiary Freedom Mobile, a relatively smaller player in the wireless space, is the fourth company.

If the proposed deal goes through, the number of service providers will drop. This will hamper competition, giving an unfair advantage to top telecom companies, ultimately increasing consumer prices. Several MPs have raised concerns against the proposed deal, citing the issue. Canada's innovation minister Francois-Philippe Champagne also joined their camp, saying the deal would have very serious competitive issues.

Generally, the more concentrated the markets, the lesser is the competition, and fewer options for consumers. Notably, the Canadian wireless market is highly concentrated, even without the combination. The top three players control more than 90% of the market share.

Interestingly, there is no specific number of how many players make the markets competitive. The management of Rogers and Shaw says that the merger will not hurt competition. They are claiming that the combination is necessary to enable larger investments ahead of the 5G revolution.

Canada's telecom industry to see a paradigm shift

Shaw's Freedom Mobile has around two million wireless customers — almost one-fifth of Rogers. Its smaller size could barely affect competition. Additionally, Shaw's wireline business does not have a significant geographical overlap compared to that of Rogers. Higher investments, improved services in the rural areas, and net new job creation are some other positives the deal is expected to spawn. So, given these points, the competition regulator might incline to approve the merger.

On the contrary, even though insignificant, the merger will make the country's wireless market more concentrated as compared to what it is now. So, this might go against the proposed Rogers-Shaw merger.

Rogers says that it needs the scale to boost investments ahead of the 5G revolution. It intends tospend $2.5 billion on network upgradation and 5G in the next few years.

Rogers-Shaw merger: Debt burden or a growth pedal?

Interestingly, the deal will most likely make Rogers extremely debt heavy. It plans to fund the deal by taking a massive debt of $19 billion. Also, its not just the merger that’s going to need funding. The spectrum sale and other capital expenditure on the network will likely increase its debt burden quite significantly.

I think this makes the bigger peer **BCE** the potential beneficiary of the overall situation. It has one of the largest subscriber bases and a scale. BCE is investing heavily in its network ahead of the 5G revolution. It has a much less leverage compared to Rogers and might benefit from the potential lower competition within the next few years.

Rogers-Shaw merger still has a long way to go. These companies expect the deal to complete by mid-2022. Whether the competition watchdog plays the spoilsport remains to be seen.

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