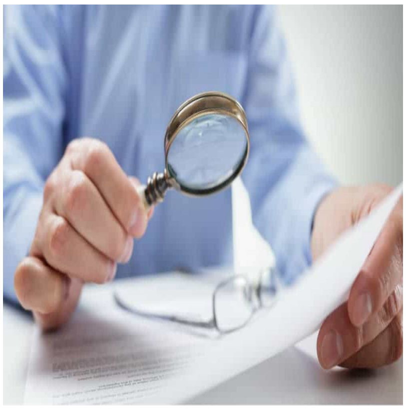

Looking for an Arbitrage Play? Here’s an Interesting 1 to Consider

Description

The 5G sector appears ready to be shaken up. Indeed, the high-profile **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) takeover of **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) has made a lot of headlines, and for good reason.

This $26 billion deal is a big one. It will combine two of the top four telecom players in Canada, if approved.

Indeed, regulators will have a lot on their plate figuring out how to make this deal work. Any deal of this size will undoubtedly get a lot of scrutiny.

However, within this deal, there might be an arbitrage opportunity for investors. Let’s explore.

An exciting deal for arbitrage players

Rogers executives have been extremely bullish on the $26 billion takeover deal of its rival. Accordingly, the company has pledged significant investments in making the deal happen, and it appears the company could sell off parts of the business to appear regulators right now.

However, the market doesn’t agree.

Right now, the market is pricing in a probability of the deal going through at around 50%. Some analysts believe the probability should be higher — around 80-90%.

Accordingly, Shaw’s preferred shares have come into focus among some investors. Right now, there’s a gap of approximately 20% between Rogers’s offer price and Shaw’s valuation. Additionally, keen-eyed fund managers have noted a clause in the takeover document that gives Rogers the right to alter Shaw’s capital structure within reason. Specifically, the clause forces Shaw to redeem its preferred shares at $25 each for a pledged $120 million over and above the break fee.

If you were to buy Shaw today, you could reap at least 24% returns, including dividends, assuming the deal closes in a year.

Regulatory headwinds provide risk

That said, this arbitrage play isn't without risk.

The market is pricing in a lot of risk right now with respect to the deal falling through. And that's easy to understand. This would be one of the biggest deals in Canada if it closes.

That said, there's some optimism regulators might view this deal the same way Rogers and Shaw do.

To fully capitalize on the growth in 5G, most telecom companies in Canada have started spending substantially to upgrade their networks. Shaw's CEO announced they do not have the funds to do so and accepted the deal from Rogers for a friendly takeover.

There's the argument that could easily be made that this deal is in the best interest of Canadians, because without it, Canada's 5G networks might lag other countries. And politicians hate looking bad on the global scale.

That said, it's a speculative play right now. I think there's some serious value in Shaw shares right now and that this arbitrage opportunity is worth considering for investors. That said, it's a risky proposition, so trade carefully.

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