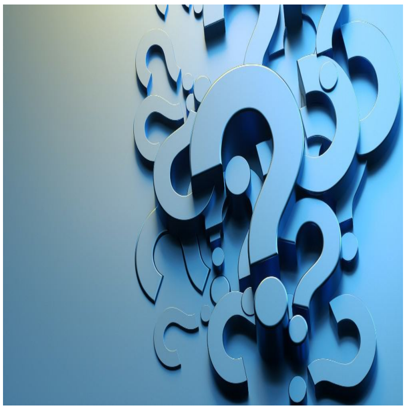

Could a 5G Bidding War Be Possible for Shaw?

Description

The competition among 5G players has intensified as the demand for high-speed internet with low latency continues to increase. Some of this trend is due to the pandemic-related work from home environment, while some of this is organic.

Whatever the reason, telecom companies are set up nicely for a period of long-term growth. I believe the 5G catalyst is one that's impossible to ignore right now as a growth area of focus for investors.

Here's the latest development on the recent mega-deal brewing in the Canadian telecom space.

Rogers-Shaw deal

When CEO Bradley Shaw of **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) announced the firm's inability to upgrade to 5G infrastructure, both **BCE** (TSX:BCE)(NYSE:BCE) and **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) submitted a takeover bid for the firm. It was the latter whose deal was accepted for a staggering $20 billion.

However, this deal is very likely to face regulatory hurdles before approval. If this acquisition goes through, competition in the 5G telecom sector in Canada will fall. Less competition means more pricing power. Indeed, Canadian telecom rates continue to be among the highest in the developed world. Accordingly, there may be additional regulatory scrutiny for this deal than others in other sectors.

Additionally, Canadian regulators have put telecom players in their sights recently. Various pricing ceilings have been discussed to protect consumers. Accordingly, it's entirely reasonable to expect some additional requirements from regulators to get this deal approved.

That said, the Canadian regulatory system is one of the most lax in the world. Accordingly, I expect this deal will go through, albeit with some stipulations. Boosting 5G infrastructure is in the best interest of Canadian consumers. As long as prices can be controlled, regulators may view this deal favourably.

A potential bidding war?

Regulatory hurdles were one of the main reasons why BCE, which owns Bell Canada, backed out of the deal. BCE made a higher bid than Rogers, offering $26 billion including debt compared to the latter company's bid of $20.4 billion.

Essentially, BCE could potentially be forced to sell off some of Shaw's wireless assets. There were concerns that BCE would also have to sell off some of its own assets for consumer interest.

Rogers agreed to a "hell or high water" clause, meaning that the company would accept any and all regulatory conditions for this deal to be approved. If regulators reject the deal, Rogers has agreed to pay Shaw a $1.2-billion break fee as well. With Bell backing out of the agreement, it appears that Rogers is set to complete this takeover and cement its market position.

While it looks like there's no bidding war on the table, the thought of such a bidding war heating up (even with other telecom players like **Telus**) could result in Shaw's share price getting bid up over Rogers' offer price.

Bottom line

Analysts are rightfully excited about the possible Rogers-Shaw deal. Drew McReynolds, an analyst at RBC, increased the price target of Rogers' shares from $70 to $74, which is currently trading near the $60 mark. Such price hikes for Shaw Communications may soon follow, so investors need to keep a close eye on these stocks.

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4. TSX:BCE (BCE Inc.)
5. TSX:RCI.B (Rogers Communications Inc.)
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