



## Mega Acquisition Is Back: 1 Stock to Buy This July

### Description

Telecom is one of the most boring sectors. In Canada, **BCE**, **Telus**, and **Rogers Communications** ([TSX:RCI.B](#))([NYSE:RCI](#)) command 90% of the market. The Canadian government tried to create a fourth big player for over a decade to promote competition. But these efforts might go in vain as Rogers sets its eyes on the fourth largest player **Shaw Communications** ([TSX:SJR.B](#))([NYSE:SJR](#)). This mega acquisition will bring a lot of drama for the two stocks.

### The mega acquisition

The acquisition means different things to [shareholders](#), customers, management, and competitors. The regulators are going to get busy achieving a common ground that is fruitful to all parties. But as a shareholder, you should pray for the deal to get through as it will unleash new growth opportunities.

### The devil is in the acquisition details

I want to focus on the terms of the deal. As part of the [transaction](#), Rogers will pay \$40.50 in cash per share of Shaw, which brings the cash transaction to ~\$20 billion. In addition, it will take up the debt of Shaw that brings the deal amount to \$26 billion. This cash deal is for the public shareholders. The Shaw family will get 23.6 million Rogers B-class shares for 60% of their shares.

The deal gives Shaw shareholders an 80% premium from the stock price at the start of the year. Let's be honest. This is the highest Shaw stock has ever gone in its 26 years of trading on the **TSX**. Since the March 2020 sell-off, Shaw's stock price growth had plateaued.

As for Shaw's 3.3% dividend yield, Rogers is handsomely compensating shareholders with an 80% premium.

When the press release came out, Shaw shares surged 45%, and the stock is currently trading at \$35.59, which is still 12% below the deal price. This 12% discount is for regulatory approval, which is a big challenge and could jeopardize the deal. But Rogers and Shaw wouldn't have taken such a big step if they were not confident of the deal's success.

They expect the regulatory approval to take over a year and the deal to close by June 2022.

## What should you do as a shareholder?

Here I will compare the classic Sprint and **T-Mobile** ([NASDAQ:TMUS](#)) merger with Rogers and Shaw to give you a sneak peek at the post-acquisition world. T-Mobile became the third-largest telecom provider in the United States with the U\$26 billion acquisition of Sprint.

The deal took two whole years and several litigations and regulatory scrutiny. The merger received opposition from worker unions, competitors (**AT&T**, **Dish Network**, and **Verizon**), customers, and states.

This whole drama (April 2018 to April 1, 2020) capped T-Mobile's stock price growth and delayed its 5G investment. But once the deal overcame all the hurdles, T-Mobile's stock price surged 77% in 15 months. The merger helped TMUS claim national dominance in low- and mid-band spectrum licenses and mobile 5G network.

If the Rogers-Shaw deal succeeds, the former will have a significant upside as it will overtake Telus to become the second-largest telecom provider after BCE. In the telecom space, market share can bring economies of scale and improve earnings. Building the entire telecom infrastructure isn't child's play. But Shaw's acquisition will give Rogers control over Western Canada.

If the Rogers-Shaw deal fails, Shaw's stock will halve to \$20-\$22, whereas Rogers will move to another target. Shaw was not Rogers's first choice. In collaboration with Altice USA, Rogers tried a hostile bid for Cogeco in August 2020 and called it quits in November 2020 after being rejected.

## Final cut

If you already own shares of Shaw, there is little motivation to stay invested. You are better off selling the stock and investing it elsewhere. If it is for the love of dividends, you are better off being the shareholder of Rogers. There is more upside in owning Rogers's shares than Shaw's. You can also get a 3% dividend yield.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. NASDAQ:TMUS (T-Mobile US)
2. NYSE:RCI (Rogers Communications Inc.)

3. NYSE:SJR (Shaw Communications Inc.)
4. TSX:RCI.B (Rogers Communications Inc.)
5. TSX:SJR.B (Shaw Communications)

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## **Date**

2025/08/15

## **Date Created**

2021/06/28

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