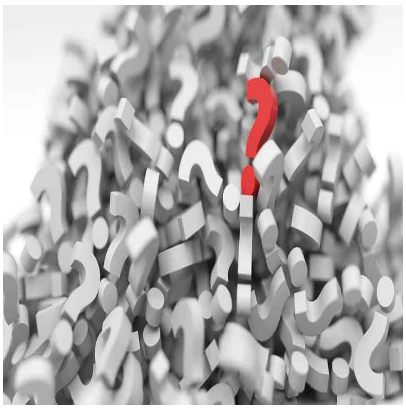

Unfair Monopoly? $26 Billion Rogers and Shaw Merger

Description

Will the proposed business combination of **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) and **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) result in an unfair monopoly? **BCE** warned federal regulators of a potential broadcast market dominance if the $26 billion merger obtains approval.

The telco giant, through Bell Canada, filed its opposition with the Canadian Radio-Television and Telecommunications Commission (CRTC). **Corus Entertainment** is also crying foul and cites the detrimental effect on global news. Shaw compensates the media and content company about $12 million annually to support Canadian content and local news.

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Ongoing review

Reuters reported that the Competition Bureau would proceed with the review of the proposed takeover of Shaw by Rogers after securing a court order in early August 2021. The Competition Bureau, CRTC, and the Ministry of Innovation, Science, and Economic Development form the triumvirate to review the transaction thoroughly.

But despite criticisms from various quarters, including consumer groups, Shaw shareholders are overwhelmingly in favour of the takeover. If approved, Rogers will acquire all shares of Shaw (class A and B). Brad Shaw, Executive Chairman and CEO of the seller, said, “The merger will create a truly national network provider with far-reaching and multigenerational benefits for all Canadians.”

The grand plan

The surviving entity will dethrone **TELUS** as Canada’s second-largest telecommunications company. Rogers promises that the new entity will invest $2.5 billion in 5G networks over the next five years. There’s also a commitment to creating a $1 billion Rogers Rural and Indigenous Connectivity Fund.

Rogers will deploy the funds to connect rural, remote, and Indigenous communities across Western Canada to high-speed internet. President and CEO Joe Natale is hell-bent on pursuing the deal. The

$30.18 billion telco is prepared to shoulder the bulk of the 5G mobile service rollout costs.

Natale challenges most industries regarding the enormous amount of investment. Rogers is spending billions for the future prosperity of Canada. Based on estimates by **BMO** Capital Markets, Rogers would get 91% of revenues from connectivity services (wireless and wireline).

Investigation update

Rogers is confident the merger will obtain the necessary approvals. Natale said, “We’re committed to getting the deal done, and we’re committed to sitting down with the regulatory bodies to figure out what is the best path forward.” Meanwhile, the Competition Bureau has no specific time frame as to when the investigation will conclude.

Telecom service providers BCE, TELUS, Xplornet, and Quebecor, were requested to submit records and information. It will help the Competition Bureau assess whether the transaction would lessen or prevent competition.

Stock performance

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The proposed Rogers-Shaw deal seems to have no positive or significant impact on the buyer. Rogers trade at $59.72 per share, or 1.5% lower since the merger announcement in mid-March 2021. On the other hand, Shaw gained 10.4% to $33.75.

Nonetheless, investors in both telco stocks are up year to date, although Shaw outperforms Rogers (+69.43% versus +3.25%). The future partners are income stocks. Rogers pays a 3.35% dividend, while Shaw offers 3.22% if you invest today.

Pros and cons

The potential merger of Rogers and Shaw still hangs in the balance. So far, the plus factors include creating 3,000 new jobs across four provinces and the connection of communities. However, the federal regulators must also consider the points raised by BCE and Corus Entertainment regarding an unfair monopoly in the broadcast industry.

CATEGORY

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

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