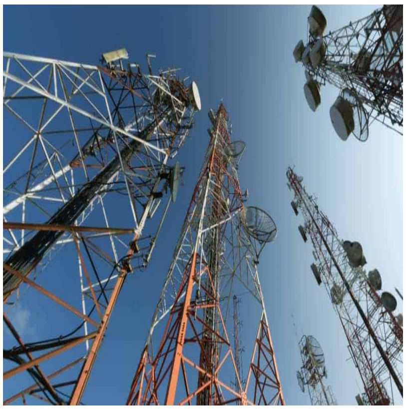

Chaos in the Boardroom: Avoid These 2 Telco Stocks

Description

Unfavourable publicity could hurt shares of publicly-listed companies more than the inherent market volatility. Investors in **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) could be anxious because their year-to-date gain has shrunk to only 1.04%.

Canada's third-largest telco is in the news lately because of a family feud that has created boardroom chaos. The Rogers family controls the $29.7 billion communications and media company but members are locked in a battle over who should take charge. A real-life corporate drama is ongoing, and the warring parties are heading to court.

Shaw Communications (TSX:SJR.B)(NYSE:SJR) could be collateral damage in the family infighting. Rogers' bid to acquire the fourth-largest in the telco sector is pending and under review by industry regulators. If you want exposure to the space, especially the 5G network, steer clear of the two telco stocks until the smoke clears.

Stock performance

Thus far, in 2021, Shaw displays better performance on the **TSX**. It outperforms Rogers and the broader index with its 63.97% year to date. Likewise, **BCE** (+23.02%) and **Telus** (+16.47%) are underperformers if you compare the industry leaders with Shaw.

Rogers hasn't shown much in the last 12 months to attract investors. At $58.44 per share, the trailing one-year price return is 7.47%. On the other hand, Shaw trades at $35.47 per share, or 69% higher than a year ago. Both are income stocks, with Rogers paying a 3.42% dividend and Shaw offering 3.34%.

Business combination

The proposed business combination between Rogers and Shaw would unseat Telus as the country's second-largest telco. Rogers' bid price is around $26 billion, although the deal is far from completion.

Many parties, including BCE, Telus, and **Corus Entertainment**, oppose the merger.

BCE, through Bell Canada, wrote to the Canadian Radio-television and Telecommunications Commission (CRTC) saying that Rogers' takeover of Shaw would allow for an unprecedented level of market power. If approved, Rogers will gain 47% control of the English-language broadcasting distribution market.

The Competition Bureau is conducting a probe on whether the merger will reduce or prevent competition. Shaw's management won't comment on the fight among members of the Rogers family. However, its CEO Brad Shaw said the $17.73 billion communications firm is committed to closing the transaction.

Court battle

The tussle for board control between Edward Rogers, son of the late Rogers founder Ted Rogers, and his mother with his sisters could be uglier than now during the court battle. The fight started with the failed plan by Edward to oust CEO Joe Natale and replace him with the company's CFO. He lost confidence in the current CEO.

Now, Edward Rogers wants the Supreme Court of British Columbia to declare the newly constituted board legitimate. The faction of the mother-sisters backs Natale and believes he is the right CEO to lead and complete the Shaw deal. Also, Edward Rogers and fellow board member John MacDonald claim to be Rogers' Chairman in their respective boards.

Is a freefall next?

I'm not sure if the court battle will trigger the freefall of Rogers' shares. The stock price has dropped 5% since October 20, 2021. Meanwhile, Shaw looks safe for now. After three quarters in 2021, management reported 43.1% and 31.3% growths in net income and free cash flow compared to the same period in 2020.

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2. NYSE:SJR (Shaw Communications Inc.)
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