



2 Telco CEOs: \$26 Billion Deal Is a Critical Turning Point

Description

The tension inside the board room of **Rogers Communications** ([TSX:RCI.B](#))([NYSE:RCI](#)) is gone, and the spotlight shifts to the business at hand. The \$26 billion proposal to acquire **Shaw Communications** ([TSX:SJR.B](#))([NYSE:SJR](#)) is under scrutiny by regulators. Many groups, including telco giant **BCE**, opposes the deal.

Edward Rogers, the buyer's chairman and the chief executive of the future business partner, appeared before the Canadian Radio-television and Telecommunications Commission (CRTC) recently. Mr. Rogers told the commission that his company needs scale to compete and to help support Canadian culture. Mr. Shaw added that Canada's fourth-largest telco can't do it alone. It needs the combined assets of Rogers and Shaw to scale.

Critical turning point

Shaw argues that the pending deal comes at a critical point in Canada's telco industry in that significant investments are required in wireline and wireless services, including the [5G network](#). Rogers contends, "Canada is no longer an island in an ocean alone." He adds, "While our primary competitors are still Bell and **Telus** in the cable business, in this global world, our competitors are also increasingly global platforms and brands."

BCE is against the deal and urges the CRTC to reject Rogers's takeover of Shaw. Robert Malcolmson, BCE's chief legal and regulatory officer, said, "The market power that Rogers seeks to acquire will have a long-lasting negative impact that will echo throughout this interdependent ecosystem."

Meanwhile, independent operators demand more safeguards. The issue boils down to a degree of control over the broadcasting sector if Rogers obtains regulatory approvals. Regarding prices, Shaw can't guarantee no rate increase if the deal pushes through. Furthermore, Bell fears that Rogers could secure exclusive rights to international programs if it controls 47% of English-language broadcast subscribers.

High chances of approval

Drew McReynolds of RBC Capital Markets gave Shaw an upgrade equivalent to a [buy rating](#). The resolution of the boardroom battle among the family members of Rogers somehow paves the way for the regulatory reviews of the deal.

There could be a compromise like the sale of some of Shaw's wireline business. Still, McReynolds believes the likelihood of approval is high. However, apart from BCE and Telus, other parties have various concerns or reservations. Among them are the Ethnic Channels Group, Canadian Media Producers Association, and Unifor have various concerns or reservations about the deal.

NDP Leader Jagmeet Singh also expressed opposition to the merger. He said, "We are absolutely opposed to this merger. It's going to hurt people, it's going to make life more difficult, it's going to make the cost of the internet continue to rise."

On the stock market, Shaw (\$37.17 per share) is the [better performer](#). Current investors enjoy a 72.29% year-to-date gain in addition to the 3.19% dividend yield. Rogers (\$57.31 per share) is down by nearly 1% and pays a 3.5% dividend. We don't know yet how the approval or rejection of the deal would impact the stocks.

More scrutiny

The review and evaluation are far from over. The CTRC hearing focuses only on the broadcasting aspects of the business combination. Other issues or items like mobile wireless services will pass through the Competition Bureau and Innovation, Science and Economic Development Canada.

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