Arbitrage: This Stock Offers a Low-Risk, Quick 8% Return

Description

Arbitrage opportunities are rare. This is an investment strategy where you can make a quick, low-risk return simply because of a mispricing in the market. Such an opportunity seems to have emerged this year in **Shaw Communications** (TSX:SRJ.B)(NYSE:SJR).

Here's a closer look.

Merger arbitrage

Merger arbitrage is a technique that generates a quick return when a publicly traded stock is trading at less than the merger price per share. For instance, if company A acquires company B for $10 a share but the stock trades at $8 on the stock exchange until the deal is closed, there's a $2 merger arbitrage opportunity.

This seems to be the case in the Shaw-**Rogers Communication** (TSX:RCI.B)(NYSE:RCI) merger. Last year, the two companies announced a merge deal. This pushed Shaw stock up by more than 70% to record highs. The headline figure for the deal is $26 billion. However, shareholders have been offered $20 billion in cash, which implies a $40.5 per share deal.

Shaw stock is currently trading at $37.4. That means investors can extract a $3.1 profit per share if the deal goes ahead as planned. That's an 8% gain for little risk.

What's the catch?

Shaw shareholders have approved the deal, but the process hasn't been completed yet. That's why this gap exists. It accounts for the risk that the deal could potentially fall apart at this very late stage.

However, the chances of this happening are remarkably low. Both sides remain confident that the deal will close by the second quarter of 2022. At that point, shareholders will receive the price agreed upon. However, even if this doesn't happen, Shaw stock is trading at a reasonable valuation, which mitigates the downside risk.

Solid financials

Shaw Communications recently delivered a solid Fiscal Q1 2022 earnings report.

Earnings landed at 31 cents a share, beating consensus estimates by 3.33%. Revenue was also up 1.2% year over year to $1.39 billion, beating the consensus estimates by 0.49%. During the quarter, the company added 55,600 new wireless customers, with wireless revenue increasing 11.2% due to continued subscriber growth.

Revenue and subscriber increases underscore a company in a robust growth phase, despite facing stiff competition and the challenges triggered by the pandemic. However, the merger with Rogers Communication is expected to be a key driver of value for many years to come. The two companies are joining forces to build a next-generation network that will offer robust competition to the rest of the industry.

Awaiting the merger, Shaw Communications is still an exciting pick, trading with a price-to-earnings multiple of 23. In addition, the stock offers an impressive 3.16% dividend yield, ideal for anyone looking to generate some passive income awaiting the proposed takeover.

Bottom line

The fact that Shaw stock is trading below its merger offer price creates an opportunity. Investors could buy this stock and expect a cash payout in the second quarter that cements an 8% return. The chances of the deal not moving ahead as planned are slim. But even in this rare worst-case scenario, there’s a limited downside. Shaw is a robust telecom stock trading at a fair price.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vraisinghani

Category

1. Investing

Date
2025/08/17
Date Created
2022/02/25
Author
vraisinghani