Rogers (TSX:RCI.B) Is on Track to Becoming 2nd-Largest Telco

Description

The proposed mega-merger in the telco industry is inching toward becoming a reality. **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) won one of three hurdles to take over **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) recently. The remaining obstacles are approvals by Innovation, Science and Economic Development Canada (ISED) and the Competition Bureau.

On March 24, 2022, the Canadian Radio-television and Telecommunications Commission (CRTC) granted conditional approval for the $26 billion deal, the sixth-largest merger in Canada's history. If the business combination pushes through, Rogers will unseat **TELUS** as the second-largest entity in the sector.

In the public interest

While its approval contained certain conditions, modifications, and safeguards, the CRTC describes the deal as in the public interest and says Canadian consumers will benefit from the transaction.

Among the strings attached to the approval is a one-time $27 million payout to the Canada Media Fund, Independent Journalism Fund, and other cultural agencies, and time-bound commitments to Shaw customers.

OpenMedia Campaigns Director Matt Hatfield criticized the CRTC, saying it was a tone-deaf decision. He adds the commission has completely lost touch with ordinary people. Hatfield notes the opposition of the House of Commons Standing Committee on Industry, Science and Technology (INDU) to the deal.

The INDU committee concluded previously that the deal is bad for Canadians, and highlights serious issues with the competition law and current CRTC. Other parties, including industry peers **BCE** and TELUS, warns of Rogers' more powerful position across profitable, highly concentrated markets if it obtains regulatory approvals.

Stock and business performances

Besides the sub-par performance on the TSX in 2021 (+5.0% total return), Rogers was rocked with controversy. The members of Rogers family had a bout of infighting to wrest control of the company. But with the boardroom drama over, the 5G stock is up 14.6% year-to-date. At $68.53 per share, Rogers pays a 2.92% dividend.

Shaw was the better performer last year, rewarding investors with a 78.4% overall return. However, its year-to-date gain is only 2.6%, although the dividend yield (3.03%) is higher. Regarding the proposed merger, Rogers' board chairman Edward Rogers said, "Today's telecommunications networks need scale to compete on the world stage."

In 2021, Rogers' total revenue increased 5%, while net income fell 2% versus 2020. Its president and CEO, Tony Staffieri, notes the strong results in Q4 2021, particularly the accelerating revenue growth and solid net subscriber additions in the wireless business. Notably, media revenue climbed 26% with the return of live sports broadcasting revenue.

Meanwhile, Shaw reported 1.2% and 4.9% increases in revenue and net income for Q1 2022 versus Q1 2021. The quarter's highlight was the 45.3% year-over-year increase in adjusted EBITDA for the wireless segment. Management believes the combined resources and networks of Rogers and Shaw will help accelerate Canada's digital economy and stimulate greater economic diversification in Western Canada.

Waiting for the green light

The OpenMedia community and other advocacy groups are calling on the country's policy makers to block the Rogers-Shaw deal. Their concern stems primarily from the zero benefit if Rogers simply absorbs rival Shaw. Some aspects of the transaction will surely harm, if not kill, competition.

Rogers awaits the approvals from the Competition Bureau and ISED to proceed with the Shaw takeover. The stock could soar further in 2022 if the two agencies give the green light soon.

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