



\$26 Billion Merger: Can Rogers (TSX:RCI.B) Clear the Roadblocks?

Description

Potential partners **Rogers Communications** ([TSX:RCI.B](#))([NYSE:RCI](#)) and **Shaw Communications** have postponed the completion of their business combination to July 31, 2022. While the companies asserted their commitment to the \$26 billion merger in the [telco industry](#), they need to clear the roadblocks first.

On March 24, 2022, the Canadian Radio-Television and Telecommunications Commission (CRTC) approved Rogers's takeover of Shaw, but the deal is subject to several conditions and safeguards. It was a win, nonetheless, and one less roadblock. However, the parties opposing the deal received support from Canada's Competition Bureau.

New twist

Rogers and Shaw will face the Competition Tribunal after the federal regulator filed applications to block the transaction. On May 9, 2022, their share prices fell 4.14% and 7.16%, respectively. As of this writing, Rogers trade at \$64.81 per share and is up 8.39% year to date. It pays a decent 3.10% dividend.

The Competition Bureau said that after a rigorous investigation, it found that the competition between Rogers and Shaw has already declined. It added that harm will continue, if not worsen. Competition Commissioner Matthew Boswell said, "We are taking action to block this merger to preserve competition and choice for an essential service that Canadians expect to be affordable and high quality."

Not a deal buster

Many analysts don't see the latest twist as a deal buster for Canada's third-largest telco. Drew McReynolds from **RBC** Capital Markets believes that Rogers will obtain approval eventually. **National Bank of Canada** Financial Markets' analyst Adam Shine said the chances of a Rogers takeover are still more than 50%.

However, Mr. Shine added that the review process could drag on for months. Rogers and Shaw will file their response with the Competition Tribunal 45 days from the applications, then the bureau must respond within 14 days. The third and final hurdle is the Innovation, Science, and Economic Development Canada (ISED).

No full takeover

Industry Minister François-Philippe Champagne is against a full takeover, because it's fundamentally incompatible with the policies of the Trudeau government. Thus, Rogers sees Shaw's Freedom Mobile as the key to a successful merger, and unloading the wireless division could address anti-trust concerns.

Quebecor is a potential taker if the company has plans to expand beyond Quebec. Its CEO, Pierre Karl Péladeau, said, "We believe that these alternatives position us very favourably, as governmental and administrative authorities, including the CRTC, pursue the public policy of establishing the conditions for true competition in wireless services in Canada."

Globalive Capital also has an interest in acquiring Freedom Mobile. The company recently entered a spectrum and network sharing agreement with **TELUS**, although the latter won't have any financial investment. Its Chairman, Anthony Lacavera, "TELUS and we believe that we are a strong remedy partner for Rogers to get the Shaw merger approved."

However, some sources say that **BCE** and TELUS want the federal government and the Competition Bureau to block Quebecor's purchase of Freedom Mobile.

Finding an effective remedy

According to Mr. Boswell, the divestiture proposal by Rogers and Shaw isn't an effective remedy for the competitive harm. But for Mr. Shine of National Bank, it doesn't make sense for the bureau to reject the proposal. Meanwhile, the deal hangs in the balance.

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