2 Telecom Stocks to Track While the Merger Is on Pause

Description

The telecom industry in Canada is highly consolidated. Three major players control the bulk of the market, and the smallest one by market capitalization — **Rogers Communications** (TSX:RCI.B)(NYSE:RCI), is planning to merge with **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) for $20 billion. If the deal goes through, it would be one of the largest mergers in Canadian history.

The deal is currently facing some antitrust problems. Canada's Competition Bureau is trying to prevent the deal from going through, and instead of pushing ahead, the two companies — or rather, Rogers — have paused the merger for now. If both Rogers and Shaw manage to quell the concerns of the commission, the deal might go through as originally planned.

Now, investors who want to get in on the action have more time to decide whether to buy, hold, or sell the two stocks or wait for the deal to go through.

The Calgary-based telecom company

Shaw Communications has an impressive customer portfolio. It has about 7.1 million subscribers, about five million of which are wireline subscribers (consumer and business) and the remaining 2.1 million wireless subscribers.

Its wireline revenue, the bulk of which came from consumers, is holding quite well considering how rapidly everything is going wireless. Despite being smaller than the three giants, it's still a large-cap stock.

The stock of Shaw Communications rose quite rapidly when the deal was announced (March 2021). But even after a 42% hike in two weeks, the price still falls short of what Rogers planned to buy it for.

It's still a bit lower than the proposed price point, primarily thanks to the dip the stock had experienced in the last couple of months when it became apparent that the deal might hit a snag. It helped push the yield higher to 3.3%, while the valuation remains reasonably fair.

The Toronto-based telecom company

Rogers stock saw a decent hike when the deal was announced, but it couldn't retain that height as Shaw did. It saw a more substantial growth phase in the last six months, followed by a sharp 13% decline. The drop has pushed the yield up to 3%. The valuation is also now quite closer to that of Shaw, and in a way, the two stocks are "syncing."

The merger is going to be quite powerful for Rogers, and not just due to a sheer increase in the customer pool size. Shaw has an impressive portfolio of wireline customers, slightly larger than Rogers. It also has a better reach, and once the merger is complete, the geographical footprint of wireline customers (primarily fibre optic) of the resulting company would be quite extensive.

The wireless business of Rogers is extensive and makes up for the bulk of its revenue, and Shaw's addition will enhance it even more.

Foolish takeaway

The impact of the merger on the two other companies in the telecom sector, **BCE** and **Telus**, will be just as profound as it will be on the two merging companies. And it might be difficult to predict what will happen after the merger, but it's reasonable to assume that if the deal falls through, both Rogers and Shaw stocks will take a massive hit.

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2. NYSE:SJR (Shaw Communications Inc.)
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Author
adamothman