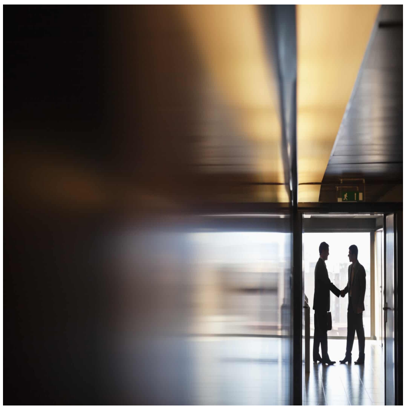

1 Telco Stock Could Soar From an All-Cash, Debt-Free Deal

Description

The proposed merger in the telecommunications industry hangs in the balance, because it's pending with the Competition Tribunal. **Rogers Communications**, the buyer of **Shaw Communications**, contests the Competition Bureau's decision to block the takeover.

The anti-trust regulator fears that the $26 billion deal will harm competition and its impact on pricing. However, Rogers and Shaw dispute the claim, as they strongly believe their business combination is in the best interests of consumers, businesses, and the economy as a whole.

Rogers was hoping to complete the transaction by the first half of 2022 but has put the plan on hold until the settlement of the issues with the Competition Bureau. Meanwhile, the company made a move to appease federal regulators, including the Innovation, Science and Economic Development Canada (ISED).

All-cash, debt-free deal

On June 17, 2022, Rogers and Shaw, along with **Quebecor** (TSX:QBR.B), jointly announced a Divestiture Agreement. The latter has agreed to purchase Freedom Mobile from Shaw on an all-cash, debt-free basis for $2.85 billion. The sale covers Freedom's infrastructure, spectrum, and retail locations, plus all branded wireless and internet customers.

The parties in the divestiture agreement are convinced the sale of Freedom Mobile would effectively address regulators' concerns. Moreover, it should keep alive a "strong and sustainable" fourth wireless carrier in Canada. For Quebecor, it's an opportunity to expand its wireless operations nationwide.

However, the Competition Bureau insists that the sale would weaken Freedom's operations and eventually reduce the "competitive discipline" among national carriers. Globalive Capital, one of the ardent suitors of Freedom Mobile, had a higher bid but Rogers rejected the offer.

Turning point in the wireless market

Pierre Karl Péladeau, Quebecor's president and CEO, said, "This is a turning point for the Canadian wireless market. Quebecor's Videotron subsidiary is the strong fourth player who, coupled with Freedom's solid footprint in Ontario and Western Canada, can deliver concrete benefits for all Canadians."

Because Quebecor is the only player with a proven record that can enter the market, Péladeau believes there'll be a healthy competition in wireless services. He described the transaction as value-added for all consumers and the Canadian economy. The $6.56 billion company might have won the deal because of its strong relationship with Rogers.

Strength in a competitive environment

Quebecor is an integrated communications company operating in the telecommunications, entertainment, news media, and culture industry. In Q1 2022, consolidated revenue and net income declined 0.3% and 2.4% versus Q1 2021. The adjusted cash flows from operations increased 2.8% year over year to $316.1 million.

Notably, Videotron's revenues from mobile services and equipment jumped 8.7% versus the same quarter in 2021. Its adjusted cash flow from operations climbed 10.1% to $344.6 million from a year ago. According to Péladeau, Quebecor continued to perform well, notwithstanding the competitive environment.

Growth driver

Performance-wise, Quebecor's total return in 10.01 years is 261.1% (13.68% CAGR). At $27.66 per share, current investors are down by only 1.1% year to date and enjoys a juicy 4.34% dividend. A trilateral agreement is in place, but the bid to acquire Freedom Mobile isn't a done deal. However, the approval of the transaction should propel the telco stock.

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