



\$20 Billion Telco Merger: More Concessions and Conditions Ahead?

Description

Many thought it would be a breeze for **Rogers Communications** ([TSX:RCI.B](#))([NYSE:RCI](#)) to take over **Shaw Communications** after clearing one of three hurdles of the proposed telco merger in March 2022. The Canadian Radio-television and Telecommunications Commission (CRTC) granted approval for the \$20 billion transaction but with certain conditions and modifications.

Nevertheless, Rogers's president and CEO Tony Stafferi, said then, "This approval is an important milestone and brings us one step closer to completing our transformational transaction with Shaw." Brad Shaw, the executive chairman and CEO of the takeover target, said the company are committed to achieve a successful completion of the deal with Rogers.

Fast forward to June 2022, and the \$20 billion merger still hangs in the balance. Rogers and Shaw expected to close the deal in the second quarter of this year. Unfortunately, the Competition Bureau expressed stiff opposition by elevating the matter to the Competition Tribunal.

Even if the hearing results favour the Rogers-Shaw deal, the Innovation, Science, and Economic Development (ISED) Canada will have to review and approve the transaction. Meanwhile, investors in both [telco stocks](#) must wait for an indefinite period before the dust settles.

Mediation process begins

The mediation process will commence on July 4 and 5, 2022, next month — the first of a series according to the Competition Tribunal. Rogers, Shaw, and the Competition Bureau have confirmed their participation in the proceedings. The competition watchdog blocked the deal, insisting the merger would ultimately kill competition and burden consumers with higher bills.

Rogers offered a concession and announced the sale of Shaw's Freedom Mobile to appease the Competition Bureau. **Quebecor** welcomed the award of the \$2.85 cash-free, debt-free deal. However, the transaction also requires clearances from the Competition Bureau and ISED Canada.

Rogers, Shaw, and Quebecor jointly stated, "The parties strongly believe the agreement effectively

addresses the concerns raised by the Commissioner of Competition and the Minister of ISED regarding viable and sustainable wireless competition in Canada.” Industry analysts expect the timing of the approval to coincide or be close to the approval of Rogers-Shaw merger.

Ineffective remedy

Competition Commissioner Matthew Boswell isn’t sold to Rogers’s concession. He said, “The proposed divestiture of Freedom Mobile is not an effective remedy.” According to some analysts, the watchdog might demand more concessions, including the sale of Shaw Mobile.

But for Staffieri, the divestiture in Freedom Mobile should already meet the government’s objective of a strong and sustainable fourth wireless services provider. He said, “Our agreement with Quebecor to divest Freedom is a critical step towards completing our proposed merger with Shaw.”

Chances of approval

Aravinda Galappaththige, an analyst at Canaccord Genuity, believes the agreement to sell Freedom Mobile increases the chances of the telco merger to 95%. It could bring Rogers to the finish line eventually. Jerome Dubreuil, a telco analyst for Desjardins Capital Markets, agrees with Galappaththige.

Adam Shine from **National Bank of Canada** Financial Markets disagrees with Boswell’s obstruction to the Rogers-Shaw deal. He thinks the commissioner is incorrect to assume that Quebecor can’t at least match Shaw’s the wireless efforts and competitiveness of Shaw.

Despite the delayed merger approval, Rogers continues to outperform the broader market. At \$61.82 per share, the telco stock is up 4.22% year to date. The price could skyrocket if it passes the three roadblocks soon.

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