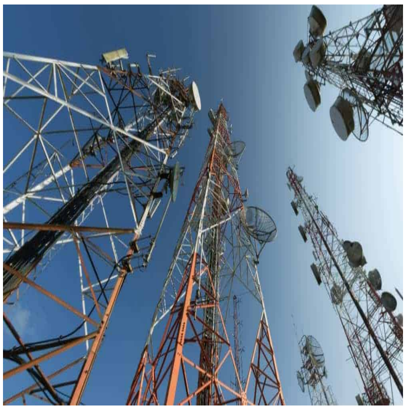

Uncertainty in the Telecom Sector: 3 Stocks to Keep an Eye on

Description

The telecom sector in Canada is going through a transformation right now. The proposed merger of **Rogers Communication** (TSX:RCI.B)(NYSE:RCI) and **Shaw Communication** (TSX:SJR.B)(NYSE:SJR) was going to make the already consolidated sector even smaller.

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There are already concerns about the absence of adequate competitiveness in the telecom sector, and the merger would only aggravate the situation.

But the proposed $26 billion merger is currently in jeopardy. There is nothing concrete, but even enough doubt in the market can hurt the stocks of the two companies involved. And enough price decline may trigger a revision of the price and cause severe issues with the proposed deal.

The second-largest telecom company

Rogers is the second-largest telecom company in the country by the number of subscribers and the third-largest by market cap. It's also one of the best 5G stocks in Canada, with far more market penetration than the other two telecom giants. And if the merger goes through, it will become far more formidable.

However, Rogers's technical problems might cast a shadow over the deal. The outage a few days ago, which left millions of Canadians unconnected, dealt a serious blow to the company. The company will credit its customers for the financial equivalent of about five days of service, which may become a significant sum. The stock also fell over 7%.

The outage has also forced many people to think that more competition in the Canadian telecom sector might solve such problems. And if the Competition Bureau takes on that perspective, it may hinder the deal.

The fourth-largest telecom company

As the company to be acquired, Shaw's future is currently tied to Rogers, and any headwinds that Rogers might suffer from can also impact Shaw. Shaw's stock fell even harder over the same period than Rogers, which might indicate that its investors will be slightly quicker to lose confidence in the company *if* the deal doesn't go through, triggering an aggressive sell-out.

Despite the recent slump, the stock is still riding the height it attained with the Rogers proposed price. The yield is quite decent at 3.4%, but most decisions to buy the company now will be influenced by the acquisition deal.

If the fear of the deal falling through starts mounting, the stock may see an aggressive slump. This will give investors a chance to buy the company at a discounted price and may benefit them in the long run, whether the deal goes through or not.

The third-largest telecom company in Canada

If we evaluate based on market capitalization, **Telus** (TSX:T)(NYSE:TU) takes the second spot in the Canadian telecom sector. It's also aggressively investing in 5G, though it is currently not in the same league as Rogers in this regard.

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But as a stock that's not overshadowed by the speculations regarding whether the Rogers and Shaw merger will go through or not, its stock has remained relatively static over the same period.

Telus is a compelling investment from both a dividend and capital-appreciation perspective. It's currently offering a 4.7% yield, and its capital-appreciation potential is quite decent compared to its telecom peers and more predictable. And since it's also the company that challenged the proposed merger, Telus stock may see a slight jump if the deal fails.

Foolish takeaway

The merger will have different implications for consumers and investors. It may benefit the latter group if they manage to time their purchases and exits wisely, according to the shifting market sentiment regarding the deal.

Even if the merger doesn't happen, investors may have the opportunity to buy Rogers and Shaw discounted and Telus and **BCE** for a small surge they may experience.

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1. Dividend Stocks
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2. NYSE:SJR (Shaw Communications Inc.)
3. NYSE:TU (TELUS)
4. TSX:RCI.B (Rogers Communications Inc.)

5. TSX:SJR.B (Shaw Communications)
6. TSX:T (TELUS)

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