



Is Rogers Communications Stock a Buy Ahead of the Shaw Merger?

Description

Canada's telecom market is in the midst of a big consolidation, as **Rogers Communications** ([TSX:RCI.B](#))([NYSE:RCI](#)) acquires **Shaw Communications** ([TSX:SJR.B](#))([NYSE:SJR](#)) for \$20 billion. This debt-heavy merger was announced in March 2021 and is scheduled to close this month. But the deal has come under fire after Rogers suffered a massive 15-hour service outage on July 8 that knocked out the internet, mobile, and landline services across the country. Rogers Communications CEO Tony Staffieri stated that the outage was due to a malfunction following a maintenance update in its core network.

The network failure puts the Rogers-Shaw deal in doubt

This network failure pulled Rogers's and Shaw's stocks down by 5.7% and 9.3%, respectively. This is the second outage of Rogers in 15 months. The first service outage happened on [April 19](#), 2021, due to a software update.

The network failure has made many customers question the reliability of the service. It has also attracted the unwanted attention of Industry Minister Francois-Philippe Champagne, whose department has the final decision on the Rogers-Shaw deal. He called such an outage "unacceptable," ordered an investigation into the matter, and gave a 60-day timeframe to telecom executives to come up with a better system to handle network failures.

This whole incident has put the Shaw deal in doubt. Would Rogers be able to handle the massive infrastructure of the combined company? Such outages could create problems in a 5G environment where mission-critical situations operate on the internet.

Other challenges with the Rogers-Shaw deal

The Competition Bureau challenged the Rogers-Shaw deal, even before the outage, but Rogers had that in check. The bureau objected that the merger could reduce competition in the wireless market. Rogers planned to address this issue by selling Shaw's wireless business Freedom Mobile to **Quebecor**

([TSX:QBR.B](#)) for \$2.85 billion. This deal will make Quebecor the fourth-largest carrier and keep competition intact. But the deal is yet to be confirmed.

If you look at the scenario, the Rogers-Shaw deal is more likely to be delayed to the end of the year or next year. But a competition lawyer Mark Warner says otherwise. Mark Warner's firm MAAW Law specializes in regulatory and trade law.

Is there a silver lining?

Mark Warner gave a political angle to this whole issue. Firstly, he noted that Rogers could use the network outage to argue that the merger would make it a big enough company to afford large-scale investments in improving the network. This might not be a strong argument as that won't deter the government's decision on the merger.

But Warner gave another strong argument around the Quebecor deal. "Mr. Champagne wants to be Prime Minister Champagne," Warner said. "And he comes from Quebec." The acquisition of Freedom Mobile will strengthen Quebecor's market share and add a positive sentiment for Champagne.

What happens to shares of the three telecom companies?

In this whole fiasco, who will win and who will lose? Or will everyone win? Strategic mergers positively impact the acquirer, provided they don't bring debt. In the case of the Rogers-Shaw deal, the merger is a debt-heavy transaction, and rising interest rates add to the debt burden.

If Freedom Mobile is out of the picture, the merger would be of cable television and internet service in different regions of Canada. Rogers's primary business is wireless, accounting for about 60% of revenue. Shaw's primary business is a wireline, and the two will create merger synergies and make digital infrastructure spending feasible, even without Freedom Mobile. The combined company could invest in [5G](#) infrastructure.

If the merger is approved, Rogers shares could surge 10-12%. If the deal with Quebecor goes through, its share price could surge 5-7%. But if the Rogers-Shaw deal falls apart, Shaw's stock could fall more than 20% to its pre-merger level. Telecom stocks have declined 10-20% in the April selloff.

Rogers and Quebecor stock are buys ahead of the merger. The merger could grow the company's size significantly and that could reflect in the share price. Even if the merger falls apart, the two stocks are already trading low because of the looming recession. You can lock in a dividend yield of 3.29% and 4.24%, respectively.

CATEGORY

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