Why Rogers Communications Stock Fell to 2-Year Lows This Week

### Description

Shareholders of **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) are some of the biggest losers right now as the company's deal with **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) continues to linger. Even eighteen months after the merger announcement, the deal looks uncertain. Rogers stock recently fell to its two-year lows, losing 10% this year. In comparison, peers have been moving ahead strongly, be it with the 5G rollout or with shareholder returns.



## What's with the Rogers-Shaw deal?

Canada's biggest wireless carrier by subscriber base, Rogers Communications agreed to buy Shaw Communications for $20 billion in March of last year. Shaw is the fourth-biggest telecom and cable company in Canada. However, opponents cried that the deal would make the industry more concentrated, ultimately raising customer bills.

To tackle these anti-trust issues, Rogers and Shaw agreed to sell Shaw's wireless segment Freedom Mobile to **Quebecor**. The deal is yet to go through. However, with Freedom's sale to Quebecor, it's believed that the fourth largest wireless player in the country will flourish, and the competition will not be hampered. The Competition Bureau will review the Rogers-Shaw deal in November.

However, considering the uncertainties and time delays involved, Rogers stock is unlikely to see a significant spurt anytime soon.

With the recent stock fall, Rogers is now Canada's third-biggest telecom company by market cap, providing wireless services to almost one-third of Canadians. Its revenues and net income have grown by 2% and 1% CAGR (compound annual growth rate) in the last 10 years, respectively. This is the general pace for telecom companies, and peers have also witnessed similar growth in this period.

## Rogers Communications and its huge debt pile

However, one thing that could notably concern Rogers shareholders is its indebtedness. Rogers already has $36.3 billion in total debt as of June 30, 2022. Its debt-to-equity ratio is around 3x, way higher than its peers. Moreover, the debt could balloon further, given the pending transaction and huge upcoming investments for the 5G rollout.

In comparison, peers **BCE** and **Telus** have relatively stronger balance sheets and have been investing heavily in their networks. Rogers spent $2.8 billion in capital expenditure last year, while BCE, the biggest of the three, spent $4.8 billion. BCE intends to extend its 5G reach to nearly 40% of the Canadian population by the end of this year.

## The Foolish takeaway

The Canadian telecom industry is indeed going through a paradigm shift. The industry structure will change with the Rogers-Shaw deal, and with the fourth player gaining strength. Industry peers will likely see accelerating topline growth as 5G becomes more commonplace in the next few years.

Among the three, BCE looks better positioned to play the 5G rally. Its superior dividend profile, large subscriber base, and robust balance sheet allow it to stand tall.

Rogers stock offers decent dividends that yield 3.6%, much lower than BCE and Telus. Notably, the stock has become relatively attractive from a valuation standpoint, particularly after the recent correction. However, delays surrounding the long-pending merger and leveraged balance sheet could continue to weigh on shareholder returns.



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