3 Reasons AT&T Inc. (T) Stock Is a Ticking Time Bomb

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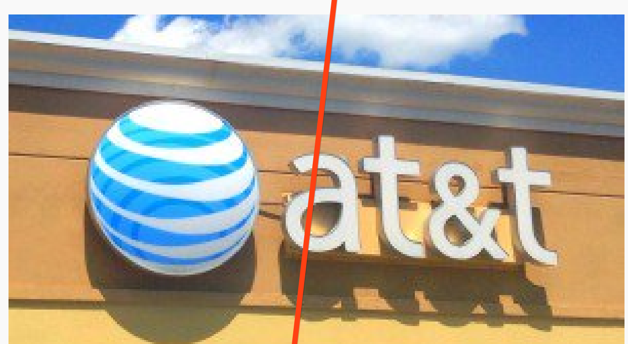
If the tentative merger between **AT&T Inc.** (NYSE:**T**) and **Time Warner Inc** (NYSE:**TWX**) doesn't go through, AT&T CEO Randall Stephenson can possibly blame CNN after Donald Trump's latest tirade against the left-leaning media.



Source: Mike Mozart via Flickr

It seems Trump might be eager to block the $85 billion cash-and-stock merger because of the way he was treated by the cable news network during the election campaign.

Given Trump is a petulant child, I wouldn't put it past him, but frankly, AT&T stock has bigger problems than a President-elect who holds vendettas against anyone who isn't drinking the Kool-Aid.

Since the merger was announced on October 22, 2016, T stock is up 9% through Jan. 13. However, it has lost some of its gains in the early days of 2017.

The way I see it, AT&T stock is a ticking time bomb; here are three reasons why.

T Stock: The Elephant in the Room

Jim Cramer appeared on CNBC's *Squawk on the Street* Wednesday suggesting that there is a very real possibility that **Sprint Corp** (NYSE:**S**) and **T-Mobile US Inc** (NASDAQ:**TMUS**) could merge bringing together the third- and fourth-largest wireless companies in the U.S. This process would put the combined company within spitting distance of AT&T in terms of subscribers.

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“In the future structure of the industry, there are a number of people who think, well, it may make sense from a scale standpoint to consider the coming together of T-Mobile and Sprint,” T-Mobile CEO John Legere said during a Q&A at CES in Las Vegas last week.

This, more than regulators blocking a Time Warner deal, is what should be keeping AT&T stock investors up at night. If it happens, somebody loses and that somebody just might be T stock.

Rupert Murdoch’s Quid Pro Quo

Donald Trump has asked the **News Corp** (NASDAQ:**NWSA**) executive chairman for some advice on hiring the next head of the Federal Communications Commission. Speculation suggests Murdoch is lobbying Trump to block the deal in an “I’ll scratch your back, you scratch mine” kind of way.

“If Fox News’ politics ultimately solidify as more pro-Trump than they were during the campaign, that might be to the benefit of Murdoch’s business interests,” wrote *New York Magazine’s* Gabriel Sherman recently. “According to a well-placed source, Trump has asked Murdoch to submit names for FCC Chairman. Murdoch, another source said, also wants conditions put on the AT&T-Time Warner merger, and he could lobby Trump to make that happen.”

While AT&T outwardly remains confident that the deal will be approved, it’s not a stretch to think Rupert Murdoch wouldn’t use whatever tactics necessary to keep an adversary at bay.

The company believes the deal will happen because it’s good for the consumer; consumer advocates believe the exact opposite. What ultimately results from the merger is what the FCC is charged with deciding and if Rupert Murdoch has anything to do with it, it will be a big fat no.

AT&T Stock: Big Acquisitions Usually Fail

When T laid out the reasons for the merger back in October, the strategic rationale for doing the deal seemed obvious to many observers.

“At the end of the day, the combination of Telecom and Media/Content makes sense given the current landscape of the industry,” wrote David Trainer, a Tennessee-based independent research analyst, in *Forbes* last November. “This deal provides AT&T the content needed to move into the future of media consumption, streaming and mobile, while providing Time Warner the platform of millions of mobile and pay-tv users with which it can sell to.”

Next Page

Trainer makes a compelling case to justify the price paid by AT&T, including rhyming off several 2016 deals that didn’t make economic sense.

However, at the end of the day, these deals almost always fail to deliver on the promise offered by both acquirer and acquired.

“When companies merge, most of the shareholder value created is likely to go not to the buyer but to the seller,” McKinsey & Company said in a May 2004 report. “The average acquirer materially overestimates the synergies a merger will yield … It takes only a very small degree of error in estimating these values to cause an acquisition effort to stumble.”

Bottom Line on AT&T Stock

Although the McKinsey report is from 2004, it is quite thorough and thoughtful in its analysis. In my experience, nothing has changed in the past 12 years that would suggest large acquisitions like the one T is proposing are executed at a higher level.

The winner's curse still very much exists.

As they say, the best-laid plans of mice and men often go awry. That's exactly what will happen if AT&T is successful.

As of this writing, Will Ashworth did not hold a position in any of the aforementioned securities.