



Investors Are Leaving Money on the Table in Sprott Deal

Description

Earlier this month, **Sprott** ([TSX: SIL](#)) [agreed](#) to acquire all of the issued and outstanding common shares of **Sprott Resource Lending** ([TSX: SIL](#)) in stock and cash. The deal calls for Sprott Resource Lending shareholders to receive 0.5 of a Sprott common share and C\$0.15 in cash for each share of Sprott Resource Lending held. At the time of the announcement, the deal represented an implied offering price of C\$1.65, which represented an 11.5% premium over the prior day's close.

The survivor

Since Sprott will be the surviving entity, it's important to better understand the company.

Sprott is an alternative asset manager of several types of funds, partnerships, and trusts with approximately \$9 billion in assets under management and \$3.3 billion in assets under administration.

Sprott manages three publicly traded physical bullion trusts with approximately \$4 billion in assets under management: **Sprott Physical Gold Trust** (TSX: PHY.U), **Sprott Physical Silver Trust** (TSX: PHS.U), and **Sprott Physical Platinum and Palladium Trust** (TSX: PPT.U).

Due to the heavy influence of precious metals and other commodities, Sprott's business, and stock price, are closely tied to movements in the precious metals markets as well as other commodities.

Sprott Resource Lending was also the brainchild of Sprott Inc. and is a lender to primarily the mining and oil & gas industries. In addition to Sprott Resource Lending, the company also manages the publicly traded **Sprott Resource** (TSX: SCP), a private-equity style company with large investments in oil and gas, agriculture, and gold bullion.

Analysis

The deal was announced during the Sprott Resource Lending first-quarter earnings conference call on May 9. The news sent shares of Sprott Resource Lending up \$0.05 to \$1.50 per share while shares of Sprott fell over 4%. Since that time, Sprott Resource Lending shares have traded in a range of \$1.47-\$1.56 and still continue to trade at a discount to the implied offer price of \$1.65.

For purposes of this analysis we are going to use the Sprott closing price as of Friday, May 24 of \$3.15 per share. Therefore, for each share of Sprott Resource Lending owned, an investor will receive 0.5 share of Sprott valued at \$1.575 plus cash of \$0.15. This means the current implied acquisition price is \$1.725. Based on the SIL's closing price of \$1.49 on May 24, the stock currently trades at a discount of almost 14% to this implied price.

Risks

So an easy return of nearly 16% is just sitting out there for the taking? Unfortunately, nothing is ever that easy.

Shares of Sprott have been very volatile since the deal was announced. In fact, the day following the announcement, shares of Sprott dropped by more than 14% at one point, only to recover and close down 4.7%.

Furthermore, the precious metals risk remains very real and further weakness may put additional pressure on Sprott shares, which in turn will most likely send shares of Sprott Resource Lending lower. Of course, all of these negative risks could also work in favor of the investor if the sentiment for precious metals turns positive.

The bottom line

The weakness in the precious metals markets is most likely responsible for the discount. However, shares of Sprott have already felt the pain of the precious metals disaster currently taking place — the shares have fallen nearly 20% just since the beginning of the year and are down 66% from the two-year closing high.

The deal is expected to close in early July at which time shareholders of Sprott Resource Lending will become shareholders of Sprott. By purchasing shares of Sprott Resource Lending prior to the close of the transaction, investors will essentially be buying shares of Sprott at a discount. In addition to the down side protection offered by the discount, owning shares of Sprott indirectly exposes investors to the commodities markets through a company headed by the well-respected Eric Sprott, with a stock already trading near historic lows.

Sprott is known for his passion for gold and remains bullish on its long term prospects. Another resource that has a future every bit as bright as the one Sprott envisions for gold is uranium. [Click here now](#) and download our **FREE** report “**Fuel Your Portfolio With This Energetic Commodity**” to see why we think uranium could be *the* fuel of the 21st century. We think you'll be surprised at the tremendous opportunity that exists, just how far two Canadian names have fallen, AND **how fast** they could rebound. [Click here](#) to access this free report, and hop on for the nuclear ride of your life!

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The original version of this post was created by Fool contributor Alex Gray.

Fool contributor Alex Gray owns shares of Sprott Resource Lending. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:SII (Sprott Inc.)
2. TSX:SIL (SilverCrest Metals)

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