



Mid-Market Recap: S&P/TSX Little Changed After Big Acquisition Lights Up Gold Mining Sector

Description

Canadian equities were little changed on Monday following a major acquisition announcement in the mining industry.

Mid-way through the trading session the **S&P/TSX Composite Index** (^OSPTX) was down 9.09 points, or 0.07%, to 13,738. In the United States equities remained weak following Friday's disappointing jobs report. As of noon, the **Dow Jones Industrial Average** was off 27.94 points, or 0.17%, to 16,409.

The big headline Monday morning was **Goldcorp's** (TSX:G, NYSE:GG) \$2.6 billion takeover bid for Quebec-based **Osisko Mining** ([TSX:OSK](#)).

Goldcorp is offering a combination of stock and cash which values Osisko at \$5.95 per share, roughly a 15% premium from where the stock closed trading on Friday. Osisko has not commented on the deal. However, shares of the mining company jumped 20% to \$6.20 on Monday suggesting that the market is anticipating a higher offer.

This could be a brilliant deal for Goldcorp shareholders. Osisko's flagship Canadian Malartic mine in Quebec is a large, low-grade mine with roughly 10 million ounces in reserves. That could move the needle for Goldcorp's production growth in the coming year.

In addition, Osisko has also had trouble ramping up production at the Malartic project and low metal prices has left the company strapped for cash. Goldcorp could take advantage of the company's misfortune and pick up a great set of assets on the cheap.

Of course, following a deal like this every investor is searching of the next mining takeover target. Low gold prices have left the industry in shambles. You could literally throw a dart at the entire sector and you're sure to hit a suitable acquisition candidate.

Kinross Gold (TSX:KGC) is one example. The company has only \$5.5 billion in market capitalization by which to finance a \$4.4 billion debt load. To conserve cash, Kinross has been forced to suspend its

dividend and delay construction at its flagship Tasiast project. But if gold prices were to take another leg lower, the company may not be able to finance its current debt load and capital spending budget.

Gabriel Resources (TSX:GBU) is another cash strapped junior which would make a suitable acquisition. The company owns a sizable deposit in Romania. However, regulatory delays and rising development costs have pushed the company to its financial limits.

The problem is to name a potential suitor who can actually step up and buy any of these troubled companies.

Senior producers like **Barrick Gold** and **Newmont Mining** are struggling under heavy debt loads. Low equity multiples means that these companies are in no position to use their shares as currency to fund acquisitions. Unlike Goldcorp, investors would be outraged if management attempted any such dilutive actions at current prices.

The Foolish bottom line

Where there's smoke, there isn't necessarily fire. Today's Goldcorp deal doesn't likely foretell a wave of gold mining acquisitions. Investors should avoid second-tier securities on takeover speculation.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:OSK (Osisko Mining)

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