Quebec Takes a Step Backwards

Description

Now that the Sochi Winter Olympics have come to a close, the province of Quebec certainly has a lot to be proud of. Québécois athletes had an extraordinary Olympics, which included winning Canada's first three gold medals, as well as the heroics in the women's hockey gold medal game.

But back home there is another story that La Belle Province should be much more ashamed of. The governing Parti Québécois proposed new measures on Thursday to shield local companies from hostile takeovers. Finance Minister Nicolas Marceau made his best case for the proposals, saying that "being masters and prosperous in our own house also means protecting the head offices of Quebec businesses."

This is terrible news for shareholders, and, in my opinion, an embarrassment for Quebec. Hostile takeovers serve a very valuable purpose, allowing shareholders the opportunity to realize a company's full value, even when management is underperforming and entrenched.

As a matter of principal, when there is a takeover offer, it is the target company's owners that should decide whether the offer is fair, no matter where the company's headquarters are located. These proposals are not motivated by sound economics or even common sense, but rather by politics.

The proposals shine an even brighter light on two companies with Quebec headquarters.

Rona Inc.

The story of **Rona Inc** (TSX:RON) is a perfect example of what the Quebec government is willing to do to protect its own companies. The big box retailer has made a series of missteps over the past decade, and over the past few years has struggled mightily against larger American competitors like **Home Depot** (NYSE:HD). Many analysts say that the industry simply has too many players.

Yet in 2012 when **Lowe's** (NYSE:LOW) stepped in with a takeover offer of $14.50 per share, the Quebec government blocked it. Certainly Rona's shareholders haven't benefited – the retailer has struggled ever since, and the shares currently trade at $11.56. But the company's headquarters remain in Quebec, which seems to be what the government cares about most.

Ever since the Lowe's offer was blocked, Rona has been rumoured to once again be a takeover target, especially after the retailer replaced its old CEO. It is very possible that Quebec wanted to stop such an event from occurring before it could even get off the ground.

Osisko Mining

Of course a much more recent headline has been **Goldcorp's** (TSX:G)(NYSE:GG) attempted takeover of **Osisko Mining** (TSX:OSK). As mentioned before, Goldcorp is attempting to take advantage of a very weak market for gold mines, and made what many would characterize as a low-ball bid. Osisko's management and board are both firmly against the offer. Judging by Mr. Marceau's proposal and comments last week, it's fairly obvious that he is as well.

Foolish bottom line

The proposals were made at a time when the minority government is expected to soon call an election. Thus they may never see the light of day. But if the proposals do eventually become implemented, it will certainly put downward pressure on the stock prices of all companies with headquarters in Quebec – especially the underperforming ones. Worse yet, this could set a precedent for other governments across the country.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:HD (The Home Depot Inc.)
2. NYSE:LOW (Lowe's Companies, Inc.)
3. TSX:OSK (Osisko Mining)

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