



Is Hudbay's Takeover Offer Fair?

Description

"The unsolicited offer is grossly inadequate and does not come close to recognizing the full and fair value of Augusta and the world-class Rosemont project," said CEO Richard Warke of copper miner **Augusta Resources** (TSX:AZC). Warke wants the company's shareholders to reject a takeover offer from **Hudbay Minerals** ([TSX:HBM](#))([NYSE:HBM](#)), calling the offer "highly opportunistic". He may have a point.

Like many junior miners, Augusta has fallen on hard times. The stock traded close to \$6 about three years ago, which is also the time at which copper prices hit their peak. But a soft market for both commodities and mining companies pushed Augusta's stock price to \$1.51 by the end of 2013.

Meanwhile the consensus analyst net asset value of Augusta is closer to \$6 per share, which has provided Hudbay with an excellent opportunity. The offer on the table is 0.315 Hudbay shares for every Augusta share, at the time equal to \$2.96 per Augusta share (a 62% premium to Augusta's 20-day average price). If the bid is successful, then Augusta's shareholders will hold an 18% interest in the combined company. But they will contribute 26% of the combined company's net asset value, and 41% of the reserves.

The tables have since turned. Hudbay's share price has declined, so the offer is now only worth \$2.74 per Augusta share. And Augusta shares currently trade at \$3.52. Augusta's management has also claimed that it has secured "no" votes from at least 33% of the shareholders, which would kill the bid. On the surface, it looks like Hudbay will have to increase its offer if it wants the takeover to be successful.

Foolish bottom line

This scenario is not unlike **Goldcorp's** bid for **Osisko Mining**. It involves a large company with lots of options and a small company that doesn't want to be taken out. But given the state of the markets, both Augusta and Osisko will have trouble finding other suitors. Meanwhile Goldcorp and Hudbay could surely find other cheap targets if their offers are unsuccessful.

Both Osisko and Augusta trade at a premium to their takeover offers, reflecting shareholders' beliefs

that higher offers are on the way. In fact, both offers are likely inadequate. But these are still buyers' markets. So holding these companies' shares, and betting on higher offers, is a very dangerous game to play.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:HBM (Hudbay Minerals Inc.)
2. TSX:HBM (Hudbay Minerals Inc.)
3. TSX:OSK (Osisko Mining)

Category

1. Investing

Date

2025/07/05

Date Created

2014/02/25

Author

bensinclair

default watermark

default watermark