



Are These 3 Mining Stocks Takeover Targets?

Description

As the first four months of 2014 draws to a close, it is clear that acquisitions are back. Maybe not to the levels seen in 2007, but it's certainly a dramatic improvement over 2013. In fact M&A activity reached \$26.5 billion in the first quarter of this year, a 26% percent increase year over year.

Mining is a perfect example. The sector was beaten down and declared dead in 2013, but now there is a flurry of activity. The most significant was the takeover of **Osisko Mining** (TSX: [OSK](#)), but others may soon follow. Private equity and pension funds have plenty of cash to work with, and may be looking to take advantage of some cheap asset prices.

The most recent issue of *Canadian Business* included an interview with Peter Hodson, CEO of 5i Research. Mr. Hodson identified three miners that could be the next takeover target.

1. Mandalay Resources

Mandalay Resources (TSX: [MND](#)) operates two mines, a silver-gold operation in Chile and a gold-antimony mine in Australia. There are a few reasons why an acquirer may want to scoop up this company.

First of all, the company actually has producing mines, which demand a significant premium over development projects (as could be seen during the Osisko bidding war). Second, the company has zero debt. Finally, the company is 40% owned by West Face Capital, a hedge fund that wouldn't mind selling the company for a big premium.

2. Semafo Inc.

Like Mandalay, gold producer **Semafo Inc** (TSX: [SMF](#)) has some attributes that would be appealing to a potential acquirer. It also has a producing mine and zero debt. Semafo is also a much larger company, with a market capitalization of over \$1 billion, meaning it may garner more attention from the industry heavyweights.

But there is one major problem with Semafo: location. Its producing mine is located in Burkina Faso, a

landlocked nation in west Africa. Burkina Faso does not have a history of bloody conflict, but it does border Mali, which has been a hotbed for terrorist activity over the last five years. The likelihood of violence spilling over the border is low, but a takeover of Semafo may still send the wrong message to an acquirer's shareholders. And that alone may be enough to deter a takeover offer.

3. Capstone Mining

Copper producer **Capstone Mining** ([TSX: CS](#)) has some of the attributes that acquirers look for. First of all, the company has three producing mines. Secondly, they're all in stable regions: the Yukon Territory, Arizona, and Mexico. Capstone also has a large copper project in Santo Domingo.

Capstone does have 55 cents per share in net debt, although this is manageable for a \$2.89 per share company. And the company is trading at just 8 times forward earnings. So there may be an opportunity for an acquirer to scoop up a bargain.

Foolish bottom line

You should never buy a stock just because you think a company will be acquired. But when looking at the companies in this list, they have attributes that individual investors should look for too, like producing mines and little debt. So even without a takeover, the shares may still turn out well. And if there does end up being a takeover, all the better!

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MND (Mandalay Resources Corporation)

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