



Are Talisman Energy and Bell Aliant About to Be Acquired?

Description

As most investors can attest, it's good to own a company that suddenly announces that it's about to be acquired.

A few years ago, I owned shares in Rothman's, Canada's largest cigarette maker. I was happy to collect my succulent dividends, and was up approximately 25% on my purchase price. I bought the company because of its fantastic profit margins, and the high barriers to entry in the industry. I was very happy to hold my shares.

And then, one morning I woke up to news that Philip Morris (now **Altria**) had made an offer to acquire the company. My shares surged another 25%, matching the price offered for the whole company. I waited a few months for the deal to get approved by shareholders, and my shares were tendered. If I remember correctly, my annual return was about 15% on those shares. It was a good investment.

My story highlights just how an unexpected acquisition can really supercharge investor returns. Generally, takeover offers are at a nice premium to the current share price, since there would be little reason to sell without it. A 20-40% takeover premium can make up nicely for lackluster performance.

It's silly for investors to only bet on a company being taken over. Rather, investors should look at companies that trade at a cheap valuation and have growth prospects. These companies will naturally either be acquired, or return to reasonable levels. Either way, investors win.

Here are two companies that fit this profile.

Talisman Energy

Rumors about **Talisman Energy** (TSX: TLM)(NYSE: TLM) being on the auction block have been buzzing around the oil patch for months now, including speculation that the company recently turned down a \$17 billion takeover offer from a French company.

Investors have punished Talisman's shares lately, sending the company down more than 50% from its 2011 peak. Talisman is a worldwide energy company, with operations on six continents. If it's an oil

producing area, chances are Talisman has, or has had, some sort of operation there.

The company started reporting some weak results from certain regions, especially its assets in the North Sea. Investors punished the company for it, choosing to dump shares in Talisman in exchange for other producers with operations focused in North America.

Talisman's management has responded by selling the majority of its assets in the North Sea, as well as most of the company's Colombian assets. The company is about halfway through ridding itself of about \$4 billion worth of assets in an attempt to streamline operations, while using the newly acquired cash to reinvest in its current operations.

This makes Talisman an attractive candidate for acquisition. Shares are temporarily beaten up, the company's debt is going down, and its operations are more concentrated. All sorts of suitors could be interested.

Bell Aliant

Considering that **BCE** ([TSX: BCE](#))([NYSE: BCE](#)) already owns 44% of **Bell Aliant** (TSX: BA), it's only a matter of time until it swallows up the whole thing.

In the meantime, investors in Bell Aliant get a company that is trading at just 10 times earnings, pays a 6.6% dividend, and has a dominant position in Atlantic Canada. Television and home phone subscribers are likely to slowly shrink over time, but the company can largely make up for this by increasing rates to remaining subscribers. Home phone and television services are still vital to millions of Canadian households.

As more Canadians cut the cord and consume media online, companies like Bell Aliant are nicely positioned to upgrade customers to faster internet packages. Customers who have cut the cord will be willing to pay a little extra to download a movie or a TV show a little faster. Internet growth will help ease the bleeding from home phone and television losses.

A potential roadblock

There's one potential stumbling block when looking for a company likely to be acquired, though — the federal government.

Ottawa has nixed several takeover offers over the past few months. **Telus** has had its bid to acquire **Mobilicity** blocked three times. There were rumors that **Lenovo** was warned to not even bother bidding for **BlackBerry**, because the federal government would say no.

This generally becomes an issue when it's a foreign company looking to acquire mainly Canadian assets. However, since so much of Talisman's asset base is outside of Canada, a deal seems likely to be approved. And since Bell Aliant would be acquired by Bell Canada, that deal would likely be approved as well. Still, it's something investors must keep in mind.

CATEGORY

1. Investing

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1. NYSE:BCE (BCE Inc.)
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Author

nelsonpsmith

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