Why the Canadian Government Won't Let Lenovo Buy BlackBerry Ltd.

Description

According to anonymous sources, Chinese giant Lenovo is on the verge of making an offer for **BlackBerry Ltd.** (TSX: BB)(Nasdaq: BBRY). Supposedly, the first offer would be $15 per share, but could go up to $18 per share. BlackBerry's shares rallied 8.7% on the news.

But this report did not answer one very significant question: Will the Canadian government support it? This is, of course, a critical question, because the Investment Canada Act requires the Canadian government to approve such a transaction before it goes through. And unless the buyout is deemed a "net benefit" to Canada, it will be rejected.

On that note, below are three reasons why the Canadian government will reject the deal.

1. Is this really a net benefit to Canada?

This issue comes up often when talking about Canada's energy companies. And in this sector, there's a strong argument that foreign takeovers are beneficial. Canadian energy companies often don't have enough capital to develop their own reserves. So when a foreign buyer comes in, that often means greater investment dollars, greater royalty revenue, and more jobs.

But BlackBerry's situation is very different. The company has been scaling down in an attempt to return to profitability, and probably wouldn't benefit greatly from more capital. And the company has already outsourced its manufacturing operations to Foxconn. So even if Lenovo was able to wean big growth out of BlackBerry's business, it may not result in more jobs here in Canada. So it's hard to see how this merger would benefit Canada (other than BlackBerry's current shareholders).

2. The risk of selling to a Chinese company

This is an enormous obstacle, because BlackBerry is not only a Canadian champion, but also operates in a very sensitive industry. The idea of this falling into Chinese hands sounds unimaginable.

For example, BlackBerry Messenger transports encrypted messages for over 90 million users. The application is known for its tight security. Meanwhile, the Chinese government has been accused numerous times of employing state-sponsored hackers to steal trade secrets.

Furthermore, the United States government would likely be very upset at Canada if such a sale were approved. So the risks are just too high.

3. This has happened before

There's actually a precedent for this. Back in November of last year, BlackBerry was looking for a buyer, and was told straight up by the Canadian government not to bother with Lenovo; such a deal would never fly.

And now, with a national election in the horizon, Prime Minister Stephen Harper would never allow a company like BlackBerry to get sold to a Chinese company. The public wouldn't forgive him, and his political rivals would have fresh material to attack him with.

BlackBerry may very well be a good long-term investment, but you shouldn't count on it being taken over by Lenovo.

There are other stocks you should consider for your portfolio, and five are highlighted below.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)

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