

These 3 Canadian Companies Are Ripe to Be Acquired

Description

Having one of your stocks acquired is a bittersweet moment.

Take **Directcash Payments Inc.** (TSX:DCI), which was a medium-sized position in my portfolio. I was attracted to the company's strong free cash flow, its growth-by-acquisition business model, the stickiness of ATM contracts and revenue, and, of course, the company's succulent \$0.12 per share monthly dividend, which worked out to a yield of approximately 12%—at least when I was buying.

It turns out I wasn't the only one attracted to Directcash. Cardtronics PLC, which calls itself the world's biggest operator of non-bank ATMs, recently agreed to acquire the company for \$19 per share. This represented a premium of close to 50% compared to the previous closing price. Somewhat begrudgingly, I sold, content to let the merger arbitrageurs collect the final morsels of profit.

The point is an acquisition can have a huge positive effect on your portfolio. It's silly to buy a stock just because you think it's going to be acquired. But it does make sense to buy the kind of high-quality companies that could get acquired, knowing the outcome is still okay even if a deep-pocketed suitor comes along.

Here are three Canadian companies that could be next to be acquired.

Jean Coutu

We've all got those two friends who would be perfect for each other, yet for whatever reason they just haven't gotten together. **Jean Coutu Group PJC Inc.** (TSX:PJC.A) and **Metro, Inc.** ([TSX:MRU](#)) are such a couple in the business world.

Metro acquiring Jean Coutu just makes too much sense. It's the kind of deal that would really make investors sit up and take notice, as Metro has been notoriously absent from the consolidation trend hitting Canada's grocers in the past few years.

Both companies have a similar geographic footprint, and Metro could easily use its increased buying power to negotiate better pricing for Jean Coutu's front-end merchandise. Investors are also likely to give Metro a higher valuation, just like they did with **Loblaws** once it closed its purchase of Shoppers Drug Mart.

Amaya

It's obvious that **Amaya Inc.** ([TSX:AYA](#))(NASDAQ:AYA) would be better served as a private company. There's just too much scrutiny surrounding the name.

I'm sure you've heard about the controversy by now. Top Amaya execs—including former CEO David Baazov—have been embroiled in an insider trading scandal from as far back as 2014, when it made the transformational acquisition of Rational Group. If the company was acquired, it could focus more on

business and less on these distractions.

The distractions take focus away from the company's earning power, which is impressive. Shares trade at just nine times cash flow, a number that could improve going forward if the U.S. dollar weakens against the euro. Amaya collects the majority of its revenue in euros while reporting in U.S. dollars.

IGM Financial

It makes all sorts of sense for **Power Financial Corp.** to acquire the 40% stake of **IGM Financial Inc.** ([TSX:IGM](#)) it doesn't already own.

The market isn't giving IGM any respect at all. Shares trade at just 12 times earnings and have a dividend yield of 6.4%. I've speculated that dividend could get cut as well, as IGM conserves cash in an attempt to roll out a lower-cost business model. If IGM was fully part of Power Financial, it could make these adjustments to its business in relative obscurity.

I'm also convinced one of the big reasons why Power Financial trades at a discount of close to 25% of the sum of its underlying parts is because of its IGM exposure. The wealth management business is out of favour. But there's still a lot to like about the business, and it still earns nice returns on capital. If Power Financial acts today, it'll get a pretty good deal even after accounting for the acquisition premium.

The bottom line

Jean Coutu, Amaya, and IGM Financial are all attractive businesses on their own, albeit with a few problems. They make perfect acquisition targets.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. TSX:IGM (IGM Financial Inc.)
2. TSX:MRU (Metro Inc.)
3. TSX:TLRY (Aphria)

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