Buy This Investment if Bearish on the Markets

Description

It was a big deal when **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS) raised $340 million going public in March, making it one of the biggest TSX IPOs in the last year.

Now, the people behind Alignvest Management Corporation, one of Canada's leading alternative investment managers, wants you to invest in its special purpose acquisition corporation, or SPAC for short.

Alignvest Acquisition II Corporation (TSX:AQY) looks to raise as much as $287.5 million from its IPO the week of May 15. Also, it's raised $113 million in private capital commitments that will go towards making a future acquisition with an enterprise value of between $500 million and $2.5 billion.

SPACs are a relatively new investment vehicle here in Canada. Around for years in the U.S., Alignvest is one of the few companies to successfully launch a TSX-listed SPAC and then make a qualifying transaction within the required 24-month period.

In June 2015, **Alignvest Acquisition I Corporation** (TSX:AQX) raised US$202 million in its first SPAC IPO along with US$61 million in additional private capital. In February 2017, AQX acquired a 50.1% interest in **Trilogy International Partners Inc.** (TSX:TRL), a high-growth telecom company with operations in New Zealand and Bolivia, for US$269 million.

Founded by three veterans of the U.S. wireless industry, the trio rolled their equity into the publicly traded company. Owning 20% of Trilogy, a company with an enterprise value of $1 billion; its two primary assets are a 73.2% ownership interest in 2degrees Mobile, the third-largest mobile company in New Zealand, along with a 71.5% interest in Neuva Tel, Bolivia's third-largest telecom company.

Alignvest goes to the well a second time

Alignvest did such a good job on the first SPAC that it's back to do the second one. Only this time, it's raised $113 million in private capital before the IPO, including $28 million from Alignvest Management partners. This way, IPO investors know there's money in the kitty before buying shares, and Alignvest's management is putting their money where their mouths are.

Any company it looks to acquire will have a strong management team, strong free cash flow, opportunities for growth, and a compelling valuation. Look for it to make a bigger qualifying transaction than the first SPAC.

Why should bears like it?

Once the IPO closes, the funds raised go into escrow, where they pay interest rates similar to what you might get for a six-month treasury bill until Alignvest finds a qualifying transaction and shareholders vote on it, or the funds are returned to investors, including the interest paid on those funds.

Sure, 0.58%, or whatever short-term rates are yielding at the moment, is hardly an incentive to buy this IPO.

However, if you're bearish on the markets, putting your money into this IPO protects you on the downside because the funds are in escrow and can't be touched, all the while paying 0.58%, which investors would have gladly taken in the last significant market correction in 2008.

On the upside, Alignvest finds a winner, and your $10 per share turns to $20 and beyond.

Bottom line on Alignvest Acquisition II

The key to these investments is the players involved. Your SPAC is only as good as the people who're backing it.

In this case, you've got some powerful people, including Alignvest Management Managing Partners Reza Satchu and Hodgson along with Vince Hemmer, a private equity investor from Chicago, and several former CEOs of major Canadian corporations.

However, if you're expecting a qualifying transaction by the end of the summer, you're likely to be disappointed. AQY is an extreme case of buy-and-hold investing and a great investment if you're unsure where markets are heading.

CATEGORY

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