



Is This 1 Company Still a Diamond in the Rough?

Description

When an investor thinks of a Canadian mine, one may think of a precious metals mine or a potash mine, but diamonds are generally not top of most people's minds. As it turns out, Canada has some very prominent diamond mines right here in our backyard. Some of the world's largest diamond operations are located or headquartered in Canada.

One firm which has seen a significant amount of press of late following a takeover bid is **Dominion Diamond Corp.** (TSX:DDC)(NYSE:DDC). The takeover bid of US\$1.2 billion by **The Washington Companies** was increased from an initial offer of US\$1.1 billion approximately four months ago due in part to an appreciating Canadian dollar over the most recent months. While the bid may be broadly unchanged from an exchange rate perspective, Dominion Diamond shareholders will still be receiving a significant premium on their shares — a premium which has subsequently been priced in to the miner's stock over recent days.

Shares of Dominion Diamond closed 5.6% higher on Monday after news that the elevated offer had been accepted by management. The US\$14.25 share price offer has not yet been fully priced in to the company's shares, with a small amount of wiggle room remaining, as shares traded on the NYSE closed at \$14.07 Monday. Since the initial offer made mid-March, Dominion Diamond shares have increased nearly 45% to match the increased value ascribed to the company via the transaction.

This diamond mining operation is one of the largest in the world in terms of rough diamond production and marketing and will now be taken private following the transaction. The Washington Companies has a long history of creating value through long-term strategic management and investment; in capital-intensive industries such as mining, having a private backer with deep pockets and a long-term strategic outlook and willingness to invest with such an outlook can provide significant value.

Bottom line

Investors looking to cash in on this pending transaction have very little upside to gain by purchasing shares at their current level. That said, as the markets have witnessed with other high-profile takeover offers of late, it is possible for the stock of the target company to trade higher post-acquisition

announcement should the market expect additional bids for the company.

The possibility of another suitor coming out of the woodwork to engage in takeover talks is possible; both the Canada Pension Plan Investment Board and Stornoway Diamond Corp. have expressed interest in takeover talks; however, nothing has materialized of yet.

Stay Foolish, my friends.

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