What the Recent Aecon Group Inc. Takeover Bid Means for Canadian Business

Description

Shareholders of Canada's largest construction company **Aecon Group Inc.** (TSX:ARE) have certainly cheered a recently proposed buyout by Chinese construction firm CCCC International Holdings. Shares of the construction company have risen from a close of $14.34 on August 24 to the $20 level in recent trading days, as investors begin to price in the premium ascribed to Aecon by the proposed parent company. The question now remains: Will the merger indeed go through as expected, or will a review by the Canadian government change the fate for Aecon investors looking to cash in?

I'm going to take a look at the bull and bear case for this acquisition, as well as what it means for other Canadian businesses looking to sell all or part of their operations in the intermediate term.

The bull case

The good news for investors looking for a continued rise in Aecon's share price is plentiful.

The combined firm will have access to global projects and opportunities that may not have otherwise been available to the company pre-acquisition. While Aecon remains the largest construction firm in Canada, handling some of the country's biggest and most well-known projects, such as the CN Tower in Toronto, CCCC has a proven track record of bidding on some very lucrative contracts globally — a factor which should play well for the Aecon division should the merger indeed go through.

The Trudeau government has stated its support for international investment in Canadian industries such as oil and gas, approving deals which many believe may not have been possible under a Harper government. With a welcoming tone underpinning the search for a suitor, indications are from financial markets that an acquisition is likely to go through, despite concerns that foreign interests may be garnering more control over Canada's most influential companies.

The bear case

Pundits arguing that the takeover may not be as boilerplate as many have suggested thus far in the media point to comments made by Prime Minister Trudeau that the deal will be closely scrutinized to ensure the deal is in fact in the best interest of Canadians and "aligned with our concerns around security and safety." National security is one of the key messages used in the previous Conservative government as reasons to block high-profile takeovers, such as the proposed **BHP Billiton** takeover of **Potash Corporation of Saskatchewan Inc.** in recent years.

The process for approval is likely to be an onerous one for the firm, and while CCCC has indicated that no layoffs would result from the merger and the company is dedicated to strengthening its business in Canada, questions will remain as to the feasibility of such a plan, given CCCC's mantra of aggressive bidding on global contracts and its large global headquarters located elsewhere.

Bottom line

This deal looks likely to go through, and as such, investors should be rewarded by holding on to shares, as the company continues to move toward its eventual acquisition. The willingness of investors to accept the potential downside risk of the transaction, however, is something each individual investor will need to consider.

The outcome of this deal will determine much of what investors can expect for other Canadian businesses potentially looking at asset sales. As such, I expect investors will keep a close eye on how the acquisition process proceeds.

Stay Foolish, my friends.

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chrismacdonald