



Nevsun Resources (TSX:NSU) Stock: Don't Chase the Action

Description

One of the biggest one-time factors in a stock surge, or plunge, is acquisition news. Companies that are getting acquired [tend to see significant gains](#), as investors are offered a premium to current market prices.

At times, a company's share price can be bid up above the offer price in anticipation of a competing bid or a higher bid by the same company. On the flip side, if no competing bid materializes, or if the offer is rejected, the shares can drop, and investors who'd invested on such hopes are left holding on to losses.

A good example of this is **Broadcom's** aggressive pursuit of **Qualcomm**. Although Broadcom's takeover was ultimately blocked by the Feds, it upped its offer a number of times, and there was even talk of a private takeover offer. Qualcomm's shares were bid up in anticipation.

In the end, Qualcomm's and Broadcom's shares tumbled when no deal materialized.

It is therefore interesting to analyze the price action on **Nevsun Resources** (TSX:NSU)(NYSE:NSU) and **Lundin Mining** ([TSX:LUN](#)).

Joint offer

For the past few months, Lundin Mining has been aggressively pursuing Nevsun Resources. In May, the company joined forces with **Euro Sun Mining**, offering \$1.5 billion, or \$5 per share, for Nevsun. Shareholders were offered \$2 in Lundin shares, \$2 in cash, and \$1 in Euro Sun shares.

The offer was rejected by Nevsun for two reasons: it undervalued Nevsun's three properties, and it outright stated that Euro Sun was not "an attractive partner."

Despite being quick to reject the offer, Nevsun's share price jumped 17% on news of the takeover attempt.

Going at it alone

In July, Lundin decided to go at it alone. It offered \$4.75 per share for Nevsun in an all-cash bid. You'll note, the bid is lower than the previous offer, which was rejected on the basis that it undervalued its properties. A statement the company has re-iterated since the new bid.

What's next? Lundin officially made the hostile takeover offer on July 26. Shareholders will be asked to tender their shares in exchange for the \$4.75 in cash.

The company is currently trading slightly above this amount, which means that shareholders may be holding out for a higher bid.

Significant downside

If shareholders reject the offer, there is significant downside to Nevsun's share price. The current offer is a whopping 82% above where the company was trading prior to Lundin first expressing interest. It's also trading 33% above the company's joint takeover attempt with Euro Sun.

Although Lundin's aggressive pursuit highlights the value of Nevsun's assets, [investors should be careful](#). By rejecting the bid, current shareholders can leave money on the table. Likewise, new investors jumping on board in the hopes of a higher offer can be left disappointed.

Don't chase the action.

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