2 Stocks That Could Be Takeover Targets in 2019

Description

The correction in the TSX Index is creating an environment where we could see some consolidation in key sectors in the Canadian economy.

Let's take a look at two stocks that could potentially attract takeover offers in the coming year.

Laurentian Bank (TSX:LB)

Laurentian Bank had a rough run in the past couple of years after an audit discovered some mortgages sold to an "unnamed lender" came up short on required documentation.

The company has since cleared up the situation, but the stock didn't get a chance to recover before the start of the recent rout in the financial sector. Additional declines have pushed the share price to lows not seen since 2009.

At the time of writing, Laurentian Bank trades at $37 per share compared to $56 at the start of 2018. This puts the market capitalization at just $1.6 billion and bumps the dividend yield above 7%. The company finished fiscal Q4 2018 with a CET1 ratio of just 9%, which is a bit low compared to the other banks.

Investors are still concerned about a potential downturn in the housing market and Laurentian Bank's heavy exposure to one geographic region, Quebec, puts it at greater risk if the province runs into an economic rough patch. As a result, Laurentian Bank might be forced to join one of Canada's larger financial institutions.

The company's subsidiary, B2B Bank, is based in Toronto and would be an attractive acquisition as part of a full-blown takeover.

The natural choice for a partner would be **National Bank**, which also has a large presence in Quebec, but that could be blocked by regulators concerned about the impact on competition in the province.One of the big three might be a more likely suitor that could get permission to buy Laurentian Bank.

Laurentian Bank has been around since 1846. We will have to see if it makes it through 2019.

Cenovus Energy (TSX:CVE)(NYSE:CVE)

Cenovus spent $17.7 billion to buy out its U.S. partner **ConocoPhillips** in 2017. The deal gave Cenovus control of its vast oil sands resources and came with strategic assets in the Deep Basin plays.

The market didn't like the deal, and pipeline constraints and weak oil prices have made things worse, sending the stock down below $9 per share. This puts the market capitalization at just under $11 billion. **Suncor** or **Canadian Natural Resources** are large enough to take a run at Cenovus, but it would be a big bet once you factor in the cost of covering the debt obligations. **Imperial Oil**, however, could be a more likely acquirer as it is majority controlled by U.S. energy giant **ExxonMobil**.

The bottom line

Laurentian Bank and Cenovus could very well remain as independent companies, but the pullbacks over the past year make them vulnerable to takeovers.

Laurentian Bank could fetch a nice premium if regulators will allow the company to be bought.

Investors in Cenovus are less likely to see a big windfall. The company's assets would be attractive for oil sands operators, but there are only a handful of players that would be big enough to take it over, and most of the international energy companies that might have shown an interest in the past have sold off their Canadian positions in recent years.

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