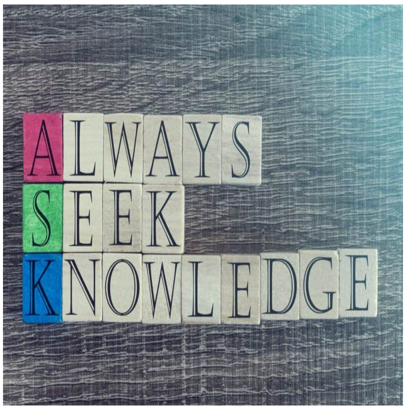

What Should Investors Do With These 2 Stocks Amid the Latest Buyout?

Description

ZCL traded at about $13 per share for quite some time in 2017 before the stock tumbled down to as low as roughly $5.75 per share in late 2018.

In an intriguing turn of events, **Shawcor** (TSX:SCL) announced that it was acquiring **ZCL Composites** (TSX:ZCL). As a result, ZCL stock popped about 36% on Monday. Unfortunately, for most of the investors who bought ZCL stock in the last couple of years, their positions are still under the water.

That said, I think Shawcor's $10-per-share cash offer is the best way to realize immediate value for ZCL shareholders, as the offer is a premium of 46% to the recent trading price of ZCL.

If investors were super lucky, they could have pocketed about 65% from picking up the stock at a low of about $6 near the end of last year.

ZCL stock fell almost 44% in 2018

ZCL stock lost a lot of elevation last year because while its revenue increased by 4.2% in the first three quarters in 2018 compared to the same period in 2017, its net income declined by nearly 19%. Its adjusted EBITDA per diluted share also declined at a similar rate of 18.75%.

ZCL's profitability was down due to higher input costs (for example, higher resin prices), unfavourable foreign exchange rate, and investments in the business that are expected to benefit the company in the future.

Why ZCL makes a good fit for Shawcor

Shawcor is a global energy services company specializing in products and services for the pipeline and pipe services segment of the oil and gas industry and related products for the petrochemical and industrial market.

ZCL manufactures and distributes fiberglass reinforced storage tanks. Its core business provides underground storage tanks that store gasoline and diesel fuel for North American retail outlets.

ZCL's corrosion-resistant tanks are environmentally friendly and are ideal for storing fuel, water, wastewater, and oil and gas. Fuel is its biggest market. The company has seven manufacturing plants: two in Canada, four in the U.S., and one in The Netherlands.

ZCL complements Shawcor. ZCL expands the product offerings and potential customer base of Shawcor. Both businesses are supported by similar long-term fundamentals, including aging infrastructure, reserve depletion, and increasing public and regulatory scrutiny. With $4 million of estimated annualized cost savings, the acquisition is expected to be low double-digit accretive to this year's adjusted earnings per share.

What makes ZCL an especially attractive acquisition is that it has a clean balance sheet with $3.8 million of net cash with no long-term debt as of the end of September. At the time, management also anticipated revenue and margins to improve this year due to its profit-improvement plan.

Investor takeaway

Shawcor's cash offer on ZCL offers immediate value for ZCL shareholders. It was very unlikely that ZCL could have traded at the roughly $10 price anytime soon if it weren't for the news. So, ZCL shareholders should take the offer and move on.

Shawcor stock fell only 1.75% to $18.57 per share on Monday, while **Thomson Reuters** analysts have a mean 12-month target of $28.70 on the stock for 54% near-term upside. So, if you like the energy services space, consider buying Shawcor.

CATEGORY

1. Dividend Stocks
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