



Alert: This Stock Could See a Big Takeover Offer Coming

Description

There was some unusual trading action with **Inter Pipeline** (TSX:IPL) shares during last week's trading on the Toronto Stock Exchange.

Shares opened the day some 8% higher on Thursday for seemingly no reason. The stock remained elevated throughout the day and even surged a little higher on Friday before shares were halted during the middle part of the trading day.

Meanwhile, rumours had begun to circulate that Inter Pipeline had received a takeover offer. The company begrudgingly admitted this on Friday, saying it received an "unsolicited, non-binding, conditional, and indicative proposal to purchase the company." Inter Pipeline also added, "it is not in negotiations with any third party, nor is there any agreement, understanding, or arrangement with respect to any transaction."

Let me translate that for you. Inter Pipeline is telling investors it received a takeover offer, but management rejected it because it was inadequate. There's no official word of how much the offer was, but the rumour mill is widely speculating the proposed price was \$30 per share.

As an Inter Pipeline shareholder, I have mixed feelings about this. On the one hand, I think my shares are worth more than \$30 each. The stock is significantly undervalued, and I'm happy to collect a generous 7% yield while waiting for the share price to recover.

But on the other hand, takeover offers aren't made willy-nilly. This looks like a serious offer made by folks who want to buy the company. Shareholders need to be the ones who say no, not the board of directors.

What's next?

There are two likely outcomes to this scenario. I'd say the most likely is the company that made the takeover offer will quietly withdraw all interest, mostly because the offer was treated with such hostility. There may be a reason why Inter's board of directors did so, but all we know is a takeover offer was

dismissed as inadequate.

The other outcome is the bidder could take a sweetened offer directly to Inter Pipeline's shareholders. This could turn into an all-out war very quickly if the bidder has a good offer.

Say the bid goes from \$30 to \$35 per Inter Pipeline share. That's a premium of 42% when compared to the market price today and a premium of more than 50% of Inter Pipeline shares before these takeover rumours started flying. A bid that good will entice a lot of shareholders, especially folks who bought in fairly recently in the low-\$20 range.

Still a good investment

While I'd never urge investors to buy a stock solely based on buyout rumours, I am a fan of buying good companies that could potentially be acquired.

Inter Pipeline is squarely in the latter camp. It's an undervalued stock based on its price-to-funds from operations (FFO) ratio, which is still quite low. Inter Pipeline earned \$1.1 billion in FFO in 2018, which translated into \$2.80 per share. Shares currently trade hands at \$24.58 each. That gives us a trailing price-to-FFO ratio of under nine times.

There's also a lot to like about the company's big new growth project, the Heartland Petrochemical Complex. Management expects the \$3.5 billion investment to add \$500 million to annual EBITDA when the plant opens in 2021. The only issue is paying for the plant, but Inter Pipeline has this all planned out.

Finally, we have a growing 7% dividend paid to investors while they wait. Dividend growth might be a little lacklustre before Heartland opens, but investors can likely expect 3-5% annual dividend increases until 2022 and then 7-10% dividend increases after that.

The bottom line

Even if another takeover offer doesn't emerge, Inter Pipeline is a good investment today. A better offer would just be icing on the cake.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date

2025/08/22

Date Created

2019/08/14

Author

nelsonpsmith

default watermark

default watermark