Attention: Buy This 1 Stock Before It Gets Acquired

Description

I hesitate to make predictions about acquisitions because even if it's true, there's no way to determine at what price investors should buy the stock and when the acquisition will occur.

That said, **Dorel's** (TSX:DII.B) share price makes it susceptible to an acquisition, and there's a good chance that **Fairfax** will make an offer.

For those of you unfamiliar with Fairfax, it's the company that purchased the Canadian division of Toys 'R' Us in April 2018 for over $300 million.

This acquisition makes Toys 'R' Us officially Canadian-owned, giving Fairfax control of over 4,000 employees working in over 80 stores.

The evidence that suggests a takeover is imminent based on a stagnating share price and a valuable asset profile.

Stagnating share price

The share price of a company will stagnate for one of two reasons.

First, the investors in the company are buying and holding the stock and there are not many transactions, which essentially results in a flat share price.

As stock exchanges represent the secondary market, whenever an investor wants to purchase shares in a company, they are effectively buying these shares from another investor, not the company itself (unless the company happens to be selling its own shares –a pretty bad sign).

Contrary to popular belief, however, once shares enter the secondary market, the company no longer profits from the ebb and flow of the share price unless it has ownership in itself.

The company's biggest payout comes when the investment bankers are able to sell the shares to other institutions or through the IPO, whereby the investing public can buy the original shares of a company.

The second reason why share prices will stagnate is due to manipulation. If you owned a company, you would not want to pay more for the company than you have to. To achieve this, a company can short shares or purposely suppress the price by putting in low bid offers.

Regardless of the method used, it results in a stagnated share price, allowing the company to make a more predictable acquisition offer. Given that Dorel took a $444 million net loss in fiscal 2018, I highly doubt that investors are waiting for the share price to go through the roof.

Valuable asset profile

The company's two biggest asset accounts are inventory at $635 million and receivables at $425 million. As an acquiring company, this would peak its interest, as receivables can easily be sold to a financial institution for a cash injection and inventory can be liquidated.

With the exception of the $433 million in current portion of long-term debt, the company's liabilities are at an acceptable level compared to its assets, which means that holding companies could be interested in making an acquisition.

Summary

Dorel is exceptionally well positioned for an acquisition by a holdings company.

With a stagnating share price that's likely due to manipulation and an asset profile that can be easily liquidated to cash, investors who are willing to take the risk could be generously rewarded.

If I were you, I would look into Dorel as an investment, even if it's only a couple of hundred shares.

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