



Merger Mania: 2 Canadian Stocks That Could Become Takeover Targets

Description

Cheap borrowing costs and [undervalued stocks](#) make the market ripe for acquisitions. Buyout offers are already ramping up in a number of struggling sectors, and more action on attractive takeover targets is possible this year.

Why Pembina Pipeline might become a takeover target

Pembina Pipeline ([TSX:PPL](#))([NYSE:PBA](#)) trades near \$36 per share compared to \$53 before the pandemic. The company has a 65-year history in the mid-stream segment in the energy sector, with valuable assets across the hydrocarbon spectrum.

Pembina Pipeline moved quickly last year to shore up its balance sheet and deferred capital projects to help it ride out the pandemic. Once the energy sector starts firing on all cylinders again, the market should start to appreciate the long-term growth potential of the company and its unique position in the industry.

With a market capitalization of roughly \$20 billion, Pembina Pipeline is small enough to become an addition for one of the larger energy infrastructure peers, or even a target for a global infrastructure fund. The recent **Brookfield Infrastructure** [offer to buy Inter Pipeline](#) shows there is takeover interest in the sector.

Pembina Pipeline pays an attractive [dividend](#) that yields close to 7%. The distribution should be safe, so investors get paid well to wait for the share price to recover.

Could Cineplex receive another takeover offer?

In late 2019, **Cineplex** ([TSX:CGX](#)) accepted a \$2.8 billion takeover bid from U.K.-based **Cineworld**. Investors saw the stock price jump from \$24 to \$34 per share on the news, and Cineplex traded near that level in the early part of 2020 on the assumption the deal would eventually close.

Then the pandemic hit and things went off the rails. Global lockdowns hammered the theatre industry sending share prices into a free fall. Cineworld [backed out of the deal](#) last June and by October last year Cineplex traded for less than \$5 per share.

Vaccine optimism sent the stock soaring to nearly \$15 earlier this month, but the emergence of the third COVID-19 wave in several Canadian provinces has triggered a pullback.

On the positive side, Cineplex renegotiated terms with lenders and sold its head office in recent months to give the company some breathing room to get through the last stretch of the pandemic. Delays on major movie releases from the film studios and the threat of direct-to-streaming are ongoing concerns, but it's likely people will still want the big-screen experience and the studios won't want to miss that market. When Canadian theatres finally get to reopen at full capacity, Cineplex could rebound quickly.

A new bidder might not offer the same price as the Cineworld deal, but it wouldn't be a surprise to see private equity or even a major streaming giant take advantage of the current situation to buy Cineplex. The company is the largest theatre operator in Canada and the business can be a cash machine when the seats are full of people enjoying high-margin drinks, popcorn, and sweets.

Cineplex used to be a dividend darling. In the right scenario, a buyer could once again reap those cash flow rewards.

The bottom line on buying takeover bets

Investors shouldn't buy stocks purely on the hopes of scoring a big gain on a takeover premium, but it makes sense to consider the attractiveness of the business to potential suitors when taking a contrarian position in a stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:CGX (Cineplex Inc.)
3. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Business Insider
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