



## Opportunity Lost? Pembina (TSX:PPL) Turns Cold on \$8.5 Billion Deal

### Description

I wrote the other week that **Pembina Pipeline** ([TSX:PPL](#))([NYSE:PBA](#)) might lose the deal to acquire **Inter Pipeline**, although by a slim chance. But in a sudden turn of events, the pipeline giant withdrew its \$8.5 billion friendly takeover proposal on July 26, 2021.

It could be an [opportunity](#) lost because the takeover target owns a vital pipeline infrastructure across Western Canada. The said infrastructure connects oil and natural gas producers with domestic and foreign clients. Inter Pipeline hoped Pembina was the white knight instead of **Brookfield Infrastructure Partners**.

### Only bid on the table

The rival bidder already owns 9.9% of Inter Pipeline that it didn't relent in increasing its hostile bid. Brookfield raised the ante to \$8.6 billion, which prompted advisory firms Institutional Shareholder Services and Glass Lewis & Co. to recommend the higher bid.

ISS favours Brookfield's third bid because it has no execution and regulatory risks. Moreover, it's an all-cash option with financing certainty. Inter Pipeline shareholders rejected the first two bids. When Brookfield sweetened the pot, Pembina announced on July 16, 2021, that it would stand pat by its offer for Inter Pipeline.

Management does not intend to increase or otherwise change the agreement. Pembina felt the strategic combination with Inter Pipeline is compelling enough from an immediate and long-term value perspective. With the termination of the Pembina-Inter Pipeline deal, Brookfield's bid is the only one on the table.

### The die is cast

Inter Pipeline Chair Margaret McKenzie said Brookfield's improved terms make it "...appropriate to recommend acceptance of the revised offer to shareholders." She added that since the offer increased

by almost 21%, it would maximize shareholder value. Mckenzie also said the company ran a fair and comprehensive strategic review.

The die is cast now that the board of directors of Inter Pipeline recommended accepting Brookfield's revised takeover offer dated July 19, 2021. However, Inter Pipeline will shell out \$350,000 as a termination fee payable to Pembina Pipeline.

## Disappointing outcome

Pembina CEO Mick Dilger was disappointed with the outcome. He said through a press release, "The industrial logic of a combined Pembina and Inter Pipeline remains unparalleled, and the value creation between certain of our assets is impossible to replicate by any other entity."

The \$22.68 billion provider of transportation and midstream services almost had Inter Pipeline in the bag. Nevertheless, it will continue to seek [opportunities for growth](#) through "focused acquisitions," says Dilger. He adds that management remains optimistic about Pembina's future, particularly the profitability of the existing business.

Dilger believes there are diverse opportunities for growth available besides the botched monster deal. In Q1 2021, Pembina completed the dry commissioning of its first propane marine export facility, Prince Rupert Terminal (PRT). It also entered into a one-year agreement with Mitsui.

Mitsui will purchase all of the post-commissioning cargos shipped from PRT. Pembina also signed a long-term 100 megawatts power purchase agreement (PPA) with a subsidiary of TransAlta Corporation. Several projects are in the pipeline, so Pembina has a long growth runway ahead.

## No material impact

Yield-hungry investors will not ditch Pembina Pipeline because it lost the Inter Pipeline deal. There was no material impact on the energy stock whatsoever. At \$41.24 per share (+42.51%), the dividend yield is a high of 6.11%. If you want [monthly dividends](#), Pembina is the undisputed choice.

### CATEGORY

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