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Saskpool Agricore takeover faces hurdles – analysts

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WINNIPEG, Manitoba, Nov 8 (Reuters) - Saskatchewan Wheat Pool's bid to create a Canadian grain handling behemoth would radically alter the industry, but analysts said on Wednesday that the deal will face significant hurdles.

Saskpool, Canada's second-largest grain company, has offered to buy its larger rival Agricore United , pushing Agricore shares to a four-year high on Wednesday.

"I don't think it's a slam-dunk," said Anil Passi, senior vice-president at Dominion Bond Rating Service. "I think it's a big bridge to cross to get Agricore shareholders on side."

Agricore shares touched levels last reached in April 2002 and closed at C$10.26, up C$2.02, on the Toronto Stock Exchange on Wednesday.

Saskpool offered 1.35 of its shares for each of Agricore's common shares. Including Agricore's debt and stock options, the total value of the offer would be close to C$825 million ($730 million).

Agricore has not yet responded to the unsolicited offer, but has urged shareholders to wait until its board reviews it.

Saskpool shares rose 26 Canadian cents to close at C$7.17 on Wednesday.

Canadian grain traders had long seen Saskpool as a takeover target, and were shocked by its gutsy move to try to swallow Agricore.

"The hunted has become the hunter," a senior grain trade source said.

The deal would get rid of some overcapacity in the handling system, and would cut costs for the two companies, the trader said.

But he said it would also give the new big company the heft to target smaller competitors by offering premiums to attract grain or secure railcars, or by charging high rates at the Pacific Coast terminal of Vancouver, British Columbia, where most Canadian grain is loaded for export.

"It scares me to death, the day that essentially three companies own all the terminal capacity on the West Coast," the trader said.

The move will galvanize farmers who worry proposed changes to the Canadian Wheat Board could hurt their clout in the industry, reduce competition, and raise their costs, traders said, and could even affect the minority Conservative government's enthusiasm for ending the CWB's monopoly on wheat and barley.

"This is just a major, major step to more concentration," CWB Chief Executive Adrian Measner told Reuters, adding farmers should pay close attention to the proposed takeover.

"The amount of farmer ownership on the Prairies in Canada is very, very small, and this (takeover) is just going to make it even harder for farmers to get more of that ownership," he said.

Farmers will play a key role in whether the takeover goes ahead, analysts said.

Farmers control Agricore's board of directors, and under its governing legislation, 75 percent of common shareholders or two-thirds of limited voting shareholders would have to vote in favor to sell the company, said analyst David Newman of National Bank Financial in a research report on Wednesday.

There is also uncertainty about the response from Archer Daniels Midland , which owns more than 20 percent of Agricore's limited voting shares and has a shotgun clause, Newman said.

Analysts expect Canada's Competition Bureau would order the merged company to sell or mothball terminals on the Prairies and at the port of Vancouver.

Uncertainty about what assets the new company would need to divest could create volatility for its stock, meaning Saskpool might have to increase its offer to win over Agricore shareholders, DBRS's Passi said.