High Alert: This Top Defensive Stock Just Took a Massive $1.3 Billion Growth Leap

Description

Investors in defensive stocks will love this news. **Saputo Inc.** (TSX:SAP), Canada's largest, and one of the world's top 10, dairy-processing companies is about to get a lot bigger. The company just announced its intention to buy Australia's largest dairy processor Murray Goulburn Co-operative in a deal worth $1.29 billion.

Here's all you need to know about this big development.

How big is Murray Goulburn?

Murray Goulburn, better known as MG, produces a full range of dairy products, including but not limited to milk, cheese, butter, dairy beverages, and nutritional products. The company sells across the world, with a key focus on Australia, Asia, and the Middle East.

During the 12 months ended June 30, 2017, MG generated nearly $2.5 billion in revenue and adjusted earnings before interest, taxes, depreciation, amortization (EBITDA) of roughly $78 million. MG undertook major restructuring moves last year, which hurt its bottom line, but it has given way to a leaner organization.

Why it's a big deal for Saputo

Saputo has been expanding aggressively into Australia in recent years. It is among the top four dairy processors in the nation today.

But there's a bigger reason why Australia is such an important market: it serves as one of Saputo's key export bases that cater to demand from emerging markets, like Asia.

So, acquiring MG should serve two purposes for Saputo: it should take its dairy division in Australia to the next level of growth and expand its global footprint into high-potential regions like Asia substantially.

Saputo currently gets only about 12% revenue from markets outside Canada and the U.S. As for MG, it is the largest dairy exporter from Australia.

How will Saputo finance the deal?

It's an all-cash deal that Saputo expects to finance through a bank loan.

While that will increase Saputo's debt burden, investors needn't worry, because Saputo has one of the strongest balance sheets, with a debt-to-equity ratio of only 0.32 and interest coverage of 32 times for the trailing 12 months, which means Saputo is currently earning enough operating income to cover its interest expenses 32 times over.

Two things to note

It's important to note that the acquisition is subject to regulatory approvals, though I don't see any hindrances to it as Saputo is already an established player in Australia, and MG was already looking for suitors to self itself to.

Saputo beat companies from Australia and China, among others, to win the final bid for MG.

Saputo expects the deal to close in the first half of next year, so there are still some months to go before you'll know about the synergies to Saputo from the acquisition.

The Foolish bottom line

I'm optimistic about Saputo's move to acquire MG, as it should strengthen the company's global foothold substantially.

Saputo is already one of the top defensive stocks to own with a beta of just 0.01. With the company also growing rapidly and boasting a solid dividend track record, investors should remain bullish on Saputo after today's announcement.

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