



3 Reasons This Stock's a Buy Down Under

Description

Back in October, **Saputo Inc.** ([TSX:SAP](#)), one of the top ten dairy processors in the world, announced it had reached an agreement to buy Murray Goulburn Co-Operative Co. Limited for \$1.3 billion.

However, before it could take the deal to the co-operative's shareholders, it first had to get clearance from the Australian Competition and Consumer Commission; that approval came April 4 — as long as it first sells one of the co-operative's plants in Koroit, a three-hour drive from Melbourne.

Murray Goulburn shareholders approved the deal a day later. Now it needs approval from Australia's Foreign Investment Review Board, at which point Saputo will become the owner of Australia's largest dairy processor.

The co-operative was facing financial difficulties and needed this transaction to go through. Murray Goulburn undertook a strategic review of its business last June and came to the conclusion that a sale was its best alternative. Saputo's offer just happened to be the best of the bunch.

Goulburn gets the lifeline it needed, and Saputo gets the Devondale consumer brand that sells milk, butter, spreads, and cheese.

Here are three reasons why it's excellent news for Saputo stock.

Saputo is buying a business that had fiscal 2017 revenue of \$2.5 billion with adjusted EBITDA of \$78 million.

For the first nine months of 2017, through December 31, 2017, Saputo's international revenues (excluding the U.S.) were \$1.0 billion. Murray Goulburn will push that close to \$4 billion and almost equal the revenue it generates in the U.S. (its largest market) annually.

When you consider that all three of its operating segments — Canada, U.S., and International — have EBITDA margins of at least 10% while Murray Goulburn's are around 3%, Saputo has an excellent chance to boost the co-operative's profit margins.

The company's international segment consists of just Australia and Argentina. With the acquisition of Murray Goulburn, it now has a serious foothold in one of those markets. Its Australian dairy division has been busy expanding its cheese production capacity Down Under. With this billion-dollar acquisition, it will be able to take a bigger bite out of the Australian cheese market.

With a trade war potentially on the horizon, Murray Goulburn's plant in China could be a valuable inroad into the Chinese market for Saputo. While milk and other dairy products aren't expected to be added to China's list of tariffs, it makes the doubling of its business in Australia that much more important to its global ambitions.

First Australia, then the world

Saputo has said that it wants to increase both its volumes and revenue in both Argentina and Australia as well as finding new international markets to conquer.

The approval by one of the Australian regulators paves the way for the completion of this deal. When you consider that Saputo's paying about 0.5 times Murray Goulburn's sales — Saputo's trades at 1.4 times sales — it's a bargain buy that could look pretty savvy in 3-5 years.

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