



## TFSA Investors Should Invest in This Stock That Investment Banks Love

### Description

In the first article of this three-part mini-series on **Saputo** ([TSX:SAP](#)), I talked about how the company's CEO, Lino Saputo, is doing a fantastic job of leading the company through this particularly turbulent time in the dairy industry [by making accretive acquisitions](#).

In the second article of the Saputo mini-series, I will focus exclusively on a little-known concept in the general investment world called "bought deal offering," which is an extremely important data point for the smartest investors.

### What is a bought deal offering?

Before we get into the meat of the Saputo offering specifically, it's worth stepping back and talking about what a bought deal offering actually is.

A bought deal offering is a very fancy way of saying "selling equity to institutions in bulk and getting cash in return." So, who exactly is the company selling to? Typically, companies that do a bought deal offering are selling a big block of shares to investment banks. These investment banks buy shares in bulk using their own cash and then sell these shares forward to their institutional clients or other strategic clients at a profit.

So, what motivates an investment bank to do this type of deal? Well, for one, when it buys shares in "bulk," it basically gets a bulk discount in the form of a price that is usually 3-5% lower than the market price. The riskier the deal, the more the discount. It is rare for the discount to be above 5%. Bulk discounts are good when the investment bank feels confident that there will be a high demand for these shares with institutional investors.

There are other strategic reasons that investment banks would participate in bought deals. They essentially want to do more and bigger business with the company, especially if the company is acquisitive in nature. So, it never hurts to cozy up.

## Saputo's recent offering was a masterstroke

So, now that we know what a bought deal is, I was extremely interested to understand the details of Saputo's latest bought deal offering in August 2019. In terms of the specifics, Saputo raised a total of \$1.3 billion at a share price of \$39.6, which represented a 5% discount to the share price in late August.

In terms of who were the buyers, this is where things get truly interesting. There were nine buyers, including the Big Five Canadian banks, plus **National Bank**, Desjardins Securities, Merrill Lynch Canada, as well as the Saputo family itself.

These specifics tell us a lot about how we should feel about this deal. First, there were a lot of very interested buyers, and this was not a solo deal by any of the banks, which is typical in an offering of this size. This level of bank interest is a good sign. What is an even better sign is the fact that the Saputo family invested in the company's shares on the same terms as well. This was done through holding companies controlled by Lino and Francesco Saputo.

The fact that the Saputo family invested alongside the banks is strong evidence of how strongly the family feels about the company's long-term prospects. Average investors like us should gain a lot of comfort from these signals.

## The stock price is looking juicy

What is also extremely important to note for us is the \$39.6 share price that investors paid for the shares in this deal. This means that banks and the Saputo family felt that this price was extremely fair and reasonable and represented good value for money. The banks also felt that they could sell these shares further on to other investors at perhaps \$40 or higher.

To me, this is evidence that the \$39-\$40 range is an extremely juicy time to get into Saputo. I am actually giddy to tell you that the shares are changing hands in the \$38-\$39 range at the time of writing, which is below the level the Bay Street bigwigs got in at. I don't know about you, but I love it when I can buy stocks at a price lower than the sharpest investors out there, and this is one of those rare times.

My view is that smart investors should look very closely at Saputo stock right now and consider nibbling in the \$37-\$38 range to set themselves up with a [fantastic stock for 2020 and beyond](#).

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2. Investing

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1. Editor's Choice

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