

4 Reasons to Make Alimentation Couche-Tard Inc. a Core Holding Today

Description

Alimentation Couche-Tard Inc. (TSX:ATD.B), one of the world's largest owners and operators of convenience stores and gas stations, has slightly outperformed the overall market in 2015, rising over 2.5% as the TSX Composite Index has return just over 2%, and I think it will continue to do so over the next several years. Let's take a look at four of the primary reasons why it could and why you should consider making it a core holding today.

1. Double-digit Q3 earnings growth to support a continued rally

Couche-Tard released very strong third-quarter earnings results on the morning of March 17, and its stock has responded by rising over 3.5% in the trading sessions since. Here's a summary of 10 of the most notable statistics from the report compared with the year-ago period (all figures are in U.S. dollars):

1. Adjusted net income increased 65.1% to \$289 million
2. Earnings per share increased 64.5% to \$0.51
3. Revenue decreased 17.9% to \$9.11 billion, primarily due to lower gas prices and the weakening of the Canadian dollar versus the U.S. dollar
4. Same-store merchandise revenues increased 4.5% in the United States, 3.6% in Canada, and 1.7% in Europe
5. Same-store road transportation fuel volume increased 2.8% in the United States and 2.1% in Europe, and declined 0.5% in Canada
6. Total road transportation fuel volume increased 4.3%
7. Gross profit increased 5.5% to \$1.53 billion
8. Adjusted earnings before interest, taxes, depreciation, and amortization increased 34.1% to \$559.8 million
9. Operating income increased 63.9% to \$384.4 million
10. Net cash provided by operating activities increased 16.2% to \$350.2 million

2. The stock trades at inexpensive forward valuations

At current levels Couche-Tard's stock trades at 27.6 times fiscal 2015's estimated earnings per share of \$1.81 and 25.2 times fiscal 2016's estimated earnings per share of \$1.98, both of which are inexpensive given its long-term growth potential.

I think Couche-Tard's stock could consistently command a fair multiple of at least 30, which would place its shares upwards of \$54.25 by the conclusion of fiscal 2015 and upwards of \$59.25 by the conclusion of fiscal 2016, representing upside of approximately 8.5% and 18.5%, respectively, from today's levels.

3. A dividend with significant upside potential

Couche-Tard pays a quarterly dividend of \$0.045 per share, or \$0.18 per share annually, which gives its stock a 0.4% yield at today's levels. A 0.4% yield may not seem like a significant reason for buying the stock, but it is very important to note that the company has increased its dividend 10 times in the last 10 years, including four increases in the last two years, and its ample free cash flow generation could allow for a significant increase in the very near future.

4. The rebound in oil prices

The price of oil has slowly rebounded from its lows over the last few months, and I think it will continue to do so over the next 12 months, which will lead to higher fuel sales and overall profitability for Couche-Tard. The increased profitability will lead to higher earnings expectations in both fiscal 2015 and fiscal 2016, making its forward valuations even more attractive. This will lead to increased free cash flow, which the company could use to increase its dividend payment.

Does Couche-Tard belong in your portfolio?

I think Alimentation Couche-Tard could continue to outperform the overall market in both the short and long term. Its double-digit third-quarter earnings growth could support a sustained rally, its stock trades at inexpensive forward valuations, it has shown a strong dedication to maximizing shareholder value through the payment of dividends, and I think the price of oil will continue to rebound over the next 12 months. Foolish investors should take a closer look and strongly consider making it a core holding today.

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Date

2025/10/01

Date Created

2015/06/08

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