

3 Reasons Why Alimentation Couche-Tard Inc. Is a Secret Outperformer

Description

Convenience store operator **Alimentation Couche-Tard Inc.** (TSX:ATD.B) has quietly been a massive outperformer over the past decade. In the past five years alone Couche-Tard's stock is up over 700%.

Over the same time period, revenues and profits have grown at an almost 30% annual rate. These strong financial results have also helped the company continually outperform the TSX during market downturns.

Fortunately for prospective investors, there are multiple tailwinds that should help the company continue its historic success.

Strong industry backdrop

The convenience store industry has shown an ability to grow sales each year, experiencing minimal sales declines during recessions. In fact, the industry was able to grow total sales in three of the past four recessions. Over the past 34 years, industry sales have increased 94% of the time.

The convenience store industry is still highly fragmented and has lots of room to grow for consolidators such as Couche-Tard.

Diversified geographic footprint with leading market positions

Couche-Tard operates thousands of stores across North America, Asia, and Europe that help it capitalize on strong industry tailwinds.

The company commands recognizable, global brands such as Circle K, Ingo, Kangaroo Express, and Statoil. These brands have given Couche-Tard leading market positions in Canada, the U.S., Scandinavia, and the Baltics.

Roughly 70% of its revenues are derived from North America. The remaining 30% stems from numerous international markets including Norway, Sweden, Denmark, Poland, Russia, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, Philippines, and the United Arab Emirates.

Track record of highly disciplined growth and high returns

Since 2003 Couche-Tard has made 47 acquisitions, adding over 1,600 stores to its portfolio. Over this time the company has also managed to reduce its debt load from 3.1 times total debt to EBITDA to only 0.9 times.

The company has also maintained an impressive overall return on capital, a big plus for investors. Returns on capital have averaged over 15% since 2003, meaning investors are having their money compound at a market-beating rate. Even during the recession, Couche-Tard achieved returns on capital of 13.2% and 16.4% during 2008 and 2009, respectively.

High returns have helped the firm increase free cash flow from \$51.2 million in 2008 to \$981.3 in 2015.

Shares are primed to continue outperformance

Even after massively outperforming the market over the past 10 years, investors have plenty of reasons to believe Couche-Tard can continue its impressive history. With its strongest financial position in years and plenty of acquisitions across a resilient industry, expect the company to continue compounding investor capital at an attractive rate.

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