



Is Now the Right Time to Buy Alimentation Couche-Tard Inc.?

Description

Alimentation Couche-Tard Inc. (TSX:ATD.B), one of world's largest operators of convenience stores and gas stations with over 13,100 locations in North America, Europe, and Asia, announced fourth-quarter earnings results before the market opened on July 14. Its stock responded by rising over 2% in the trading session that followed, reaching new all-time highs in the process. Let's take a closer look at the results to determine if this could be the start of a sustained rally higher, or if we should wait for a better entry point in the trading sessions ahead.

The results that ignited a rally

Here's a summary of Couche-Tard's fourth-quarter earnings results compared with its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Q4 2015	Q4 2014
Adjusted Earnings Per Share	\$0.25	\$0.22
Revenue	\$7.29 billion	\$8.95 billion

Source: Alimentation Couche-Tard Inc.

Couche-Tard's adjusted earnings per share increased 13.6% and its revenue decreased 18.6% compared with the fourth quarter of fiscal 2014. The company's double-digit percentage increase in earnings per share can be attributed to its adjusted net income increasing 15.4% to \$142 million, which was helped by "continued organic growth and higher fuel margins," but was partially offset by "the strengthening of the U.S. dollar against the corporation's other functional currencies and by a higher income tax rate."

Its double-digit percentage decline in revenue can be primarily attributed to road transportation fuel sales decreasing 21.5% to \$5.06 billion, which was only partially offset by its merchandise and services sales increasing 12.4% to \$2.02 billion.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago

period:

1. Same-store road transportation fuel volumes increased 6.4% in the United States, 3.7% in Europe, and 1.5% in Canada
2. Same-store merchandise revenues increased 5.2% in the United States, 3.0% in Europe, and 3.8% in Canada
3. Gross profit increased 4.9% to \$1.17 billion
4. Gross margin expanded 360 basis points to 16.1%
5. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 14% to \$341.9 million
6. Adjusted EBITDA margin expanded 130 basis points to 4.7%
7. Operating profit increased 20.6% to \$186.2 million
8. Operating margin expanded 90 basis points to 2.6%

Couche-Tard also announced a 22.2% increase to its quarterly dividend to CA\$0.055 per share, and the next payment will come on August 6 to shareholders of record at the close of business on July 23.

Will the rally continue?

It was a solid quarter overall for Couche-Tard, so I think the post-earnings rally in its stock is warranted. I also think this could be the start of a sustained rally higher because its stock still trades at favourable valuations, because I think fuel prices will head higher over the next 12 months, and because the company has shown a strong dedication to maximizing shareholder value through the payment of dividends.

First, Couche-Tard's stock trades at 30.6 times fiscal 2015's adjusted earnings per share of \$1.80, which seems fair, but it trades at just 28.9 times analysts' estimated earnings per share of \$1.90 for fiscal 2016, which is inexpensive compared to its long-term growth potential and the industry average price-to-earnings multiple of 29.8.

Second, I think fuel prices will head higher over the next 12 months, which will lead to higher fuel sales and overall profitability for Couche-Tard. The increased profitability will also lead to higher earnings expectations for the company in fiscal 2016, which will make its forward valuations even more attractive and help send its shares even higher.

Third, Couche-Tard now pays an annual dividend of \$0.22 per share, giving its stock a 0.4% yield at current levels. A 0.4% yield is not high by any means, but the company has now increased its dividend 11 times in the last 10 years, making it one of the top dividend-growth plays in the industry today.

With all of the information provided above in mind, I think Alimentation Couche-Tard represents one of the best long-term investment opportunities in the market. Foolish investors should strongly consider beginning to scale in to positions right now.

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