

Alimentation Couche-Tard Inc. Is Poised to Become a Dividend-Growth Superstar

Description

Dividend-growth investors often follow the same pattern.

They'll look for a stock with years, and possibly decades, of consistent dividend increases. The thinking is the longer a dividend has been steadily upped, the better the odds are of it going up next year and the year after. Thus, companies like Canada's largest banks and utilities are often very popular dividend-growth choices.

There's nothing wrong with those choices. I just question the kind of growth potential the largest companies in the country have. And if a company is already paying out 50-80% of its earnings in dividends, that doesn't allow for much of a margin of error if it has a bad year or two.

Perhaps dividend-growth investors should look at things a little differently. Rather than looking at results that go back decades, why not look ahead? A company with a strong growth profile and a very small current dividend has the potential to grow that payout at a much faster rate than a mature company.

I think **Alimentation Couche-Tard Inc.** (TSX:ATD.B) has such potential. Here's why it could end up being a big dividend-growth winner over the next few decades.

Still dripping potential

Over the last decade, Canada's largest owner of convenience stores has made several huge acquisitions to grow internationally. Between the Couche-Tard, Mac's, Circle K, Statoil, and Kangaroo Express brands, it owns or supplies some 14,700 stores in more than a dozen countries. It most recently acquired the Pantry, which added some 1,500 stores to the pile.

The drop in oil has been a pretty big positive for the company. Most of its stores in North America and Europe sell gas, which means it benefits in two ways. Customers drive more when gas costs less, and a lighter-than-expected gas bill means they're more likely to pick up a snack or a drink when they go inside to pay. Thus, even though sales are down slightly, profits and margins have increased.

There's still plenty of potential to expand as well. There are thousands of gas stations in North America that are still operated by oil companies. In Canada alone, nearly 2,000 gas stations are owned by **Suncor** (under the Petro-Canada brand) and **Husky**. There are additional opportunities to pick up stores in the U.S. as well.

Dividend growth

Even if Couche-Tard doesn't make any major acquisitions in the next few years, the potential for the company to grow the dividend is still huge.

Over the last 12 months, the company generated nearly \$1 billion in free cash flow. It paid out just

\$83.9 million in dividends. That's a payout ratio of just 9%.

At this point, the company is smart to pay a small dividend. Getting rid of debt should be the first priority, so management has the flexibility to make further acquisitions. It would be a shame if the company missed out on a good acquisition because it was in no hurry to pay back the debt from last time it acquired something.

But as the company gets bigger, the debt situation gets better and better. It has the collective earnings from 14,700 stores to throw towards debt.

And it's not like the company hasn't been increasing the dividend. The payout per share has increased 200% since 2010, with the dividend going from \$0.02 per share per quarter to \$0.055.

That translates to a pretty anemic current yield of just 0.4%, but we're more concerned with future growth. Even if the company doesn't grow free cash flow a nickel between now and 2025, the company can still boost the dividend by 20% per year, and the dividend payout ratio would still only be at around 15%.

There aren't many companies with the dividend-growth potential of Alimentation Couche-Tard. Perhaps there's the argument to be made that shares are expensive, but dividend-growth investors should be happy to pay up for quality. It's that simple.

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