

Could Alimentation Couche-Tard Inc.'s Q2 Earnings Propel it Higher?

Description

Alimentation Couche-Tard Inc. (TSX:ATD.B) is one of world's largest operators of convenience stores and gas stations, and it announced second-quarter earnings results on the morning of November 24. Its stock has responded by rising about 2% in the trading sessions since, hitting new all-time highs in the process. Let's take a closer look at the results to determine if the stock could head even higher from here and if we should be long-term buyers today.

The results that have enabled the rally

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

Metric	Q2 2016 Actual	Q2 2016 Expected	Q2 2015 Actual
Adjusted Earnings Per Share	\$0.66	\$0.64	\$0.55
Revenue	\$8.44 billion	\$8.89 billion	\$8.95 billion

Source: *Financial Times*

Couche-Tard's adjusted earnings per share increased 20% and its revenue decreased 5.7% compared with the second quarter of fiscal 2015. The company noted that its very strong earnings-per-share growth could be attributed to three primary factors. First, it received "solid" contributions from its recent acquisitions, most notably The Pantry Inc. network of stores. Second, it reported strong organic growth in both its convenience store and fuel operations. Third, it reported slightly higher road transportation fuel margins.

It also noted that its slight decline in revenue could be attributed to three primary factors.

First and foremost, the average selling price of fuel decreased 29.8% year over year to \$2.36 per gallon, which led to its road transportation fuel revenues decreasing 8.2% to \$5.84 billion. Second, it was negatively impacted by the translation of revenues from its Canadian and European operations into its reporting currency, the U.S. dollar. Third, it disposed of two business segments over the last year, including its aviation fuel business in the third quarter of fiscal 2015 and its lubricants business in the second quarter of fiscal 2016.

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

1. Adjusted net income increased 19.8% to \$375 million
2. Merchandise and service revenues increased 23.4% to \$2.4 billion
3. Same-store road transportation fuel volumes increased 7.4% in the United States, 3.7% in Canada, and 3.5% in Europe
4. Same-store merchandise revenues increased 5.2% in the United States, 3.6% in Canada, and

3.1% in Europe

5. Gross profit increased 18.9% to \$1.53 billion

6. Net cash provided by operating activities increased 12.9% to \$611.1 million

Couche-Tard also announced a 22.7% increase to its quarterly dividend to CDN\$0.0675 per share, and the next payment will come on December 17 to shareholders of record at the close of business on December 3.

What should you do with Couche-Tard's stock today?

It was solid quarter overall for Couche-Tard given the hurdles it faced related to lower fuel prices and foreign exchange, so I think its stock has responded correctly by moving higher. I also think the stock could continue higher from here and that it represents a great long-term investment opportunity today, because it still trades at attractive forward valuations and because it is a dividend-growth play.

First, Couche-Tard's stock trades at 29.5 times fiscal 2016's estimated earnings per share of \$2.12 and 26.9 times fiscal 2017's estimated earnings per share of \$2.32, both of which are inexpensive given its 10.5% long-term growth rate and the significant synergies the company will experience over the next several years related to its recent acquisition activity.

With the factors above in mind, I think Couche-Tard's stock could consistently trade at a fair multiple of about 30, which would place its shares upwards of \$69.50 by the conclusion of fiscal 2017, representing upside of more than 11% from today's levels.

Second, Couche-Tard now pays an annual dividend of CDN\$0.27 per share, giving its stock a 0.4% yield. This tiny yield may not seem like much at first, but it is very important to note that the company has raised its annual dividend payment for six consecutive years, and the 22.7% increase it just announced puts it on pace for 2016 to mark the seventh consecutive year with an increase.

With all of the information provided above in mind, I think Foolish investors should strongly consider beginning to scale in to long-term positions in Alimentation Couche-Tard over the next couple of weeks.

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