



Why Imperial Oil Limited and Alimentation Couche-Tard Inc. Signed a Monster Deal

Description

On Tuesday **Imperial Oil Limited** ([TSX:IMO](#))(NYSE:IMO) announced that it had sold its 497 remaining company-owned gasoline stations for \$2.8 billion. Most of the sites were picked up by **Alimentation Couche-Tard Inc.** (TSX:ATD.B) with four other buyers participating as well. The move comes more than a year after Imperial first announced its intentions to sell the stations.

So what does this sale mean for Imperial, and what does it mean for Couche-Tard?

Imperial: building up strength

Ever since oil prices plummeted in late 2014, Imperial has been cited as a potential consolidator in Canada's energy patch. For example, some analysts thought that Imperial would offer a rival bid for **Canadian Oil Sands Ltd.**

There was good reason for such speculation. The company has one of the best balance sheets in the industry with a debt-to-capital ratio of just 27%. Furthermore, asset prices (including Canadian Oil Sands) have plummeted, which means there could be some bargains available. Finally, Imperial's share price has held up relatively well (down less than 6% in the past 12 months), which makes stock-based purchases less dilutive.

But Imperial has held back so far, partly because it was spending money on completing the Kearl expansion. The company may have also believed that assets would get even cheaper.

Now the story has changed slightly. The Kearl expansion is complete, and the upstream capital budget has been slashed by more than 60%. There's a good chance that oil prices have already bottomed out. And Imperial has an extra \$2.8 billion it can use to do whatever it wants. Historically, that has meant share repurchases, but the company can probably score better deals with acquisitions at this point.

Couche-Tard: more of the same

Couche-Tard will be assuming control of 279 of the sites and paying just short of \$1.7 billion. At first

glance, this seems like a very high price, especially since some analysts had pegged the total value of the 479 locations at \$1 billion or less.

But on closer inspection, the deal makes sense for Couche-Tard as well. The retail sites are in very high-density markets, mostly in the Greater Toronto Area. There are also plenty of synergies, partly due to greater bargaining power with suppliers. And the integration should be relatively straightforward.

Most importantly though, Couche-Tard has been very successful at acquiring convenience store franchises and getting the most out of them. It's how the company has increased its share price by 600% in the past five years.

So, hopefully for Couche-Tard and its shareholders, the company can apply the same formula to its recent purchase. And in the meantime, the deal is still accretive to earnings, despite the high price tag. Investors have reacted positively so far, sending the shares up by about 1%.

Thus it seems like both Imperial and Couche-Tard benefit from this deal. Time will tell.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSEMKT:IMO (Imperial Oil Limited)
2. TSX:IMO (Imperial Oil Limited)

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