

Alimentation Couche-Tard Inc.: This Great Growth Stock Will Not Quit

Description

The big story in Canadian business on Tuesday was **Imperial Oil Limited** agreeing to sell nearly 500 Esso-branded gas stations to five different companies for a total of \$2.8 billion.

As expected, **Alimentation Couche-Tard Inc.** (TSX:ATD.B) scooped up the majority of the stores, paying \$1.7 billion for 279 locations in Ontario and Quebec. 7-Eleven Canada bought the sites in Alberta and British Columbia, while other distributors **Parkland Fuel**, Harnois Groupe pétrolier, and Wilson Fuel Co. also picked up locations in the deal.

The deal was a huge win for Imperial Oil. The company has mused about selling these sites for more than a year, originally announcing its intention to do something in January 2015.

Analysts did not expect these locations to fetch nearly \$2.8 billion. According to reports from *Business News Network*, analysts from Raymond James and RBC Capital Markets pegged the value of Imperial's fuel stations at \$1.4 billion and at approximately \$750 million, respectively.

There are a couple of reasons why Imperial was able to do so well on this deal.

The first is the same mantra that real estate investors have repeated forever: location, location, location. These sites are in good spots that continue to get better as Canada's major cities expand. Secondly, the company is known to run a good operation. All these buyers really have to do is show up and slap their signage on the outside of the building.

With Imperial Oil getting such a good price for these assets, should Alimentation Couche-Tard investors be concerned the company overpaid? Hardly. Here's why.

A good deal

These gas stations aren't located in the middle of nowhere. Out of the 229 sites acquired in the province of Ontario, 189 are located in the Greater Toronto Area. An additional 24 are located in and around Ottawa, while the other 16 are located near London. Additionally, all 50 locations acquired in Quebec are located in and around Montreal. Each site included in the deal averages about \$8.5 million in fuel sales alone.

It gets better. All of the sites in Ontario have a Tim Hortons attached, a small gas station version that sells a limited menu. And 178 locations have car washes, which provide a nice source of auxiliary revenue. In short, these are premium locations that a company like Couche-Tard really wants to have.

There's also significant real estate value in this deal. Couche-Tard will own the land underneath 238 of the locations, while the other 41 offer land currently leased from third parties under long-term agreements.

Couche-Tard is expected to finance the majority of the transaction through a combination of cash on

hand and borrowings under its credit facilities. As of October 11, 2015, the company was sitting on approximately \$475 million in cash. I estimate some \$1-1.2 billion of the transaction will be financed. That would push the company's total debt between \$3.4 and \$3.6 billion, which is manageable.

Effect on earnings?

Unfortunately for shareholders, the company just said it expects the acquisition to immediately be accretive to both cash flow and net earnings without giving investors any updated earnings guidance. Before the deal was announced, analysts expected the company to earn \$2.39 per share for its upcoming fiscal 2017.

Between this deal and the previously announced one in December to acquire sites in Ireland, there's a real potential for 2017 to be a pretty good year on the earnings front.

It seems pretty obvious that Couche-Tard will continue to make acquisitions. Many of Canada's largest oil companies may choose to follow Imperial Oil out of the business, and Couche-Tard is the natural buyer of these assets. And remember, the company has a significant presence around the world. It could pick up sites anywhere.

As time goes on, it will get harder and harder for Couche-Tard to make acquisitions that really move the bottom line. But at this point, there's still plenty for investors to get excited about.

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