

Alimentation Couche-Tard Inc.: Is This Great Stock Worth the Inflated Price?

Description

There's a lot to like about **Alimentation Couche-Tard Inc.** (TSX:ATD.B).

The company is a growth machine. Five years ago, the operator and franchiser of convenience stores had shares trading below \$10 each. Five years later, the company is bumping up against \$60 per share, a return of approximately 600% once we include dividends.

Not bad for a business many would consider boring.

In 2011 the company had profits of \$0.67 per share on revenue of US\$18.96 billion. Over the last 12 months, revenue was US\$34.03 billion with profits of \$1.97 per share. That's remarkable growth in a world where many mature companies are barely growing the top line at the rate of inflation.

Much of this growth was fueled by acquisitions. More than 2,300 convenience stores were acquired from Statoil in Europe; 1,500 stores were acquired from The Pantry, primarily located in the southeastern United States; 444 stores were purchased in Ireland from Topaz Energy; and most recently, Couche-Tard announced it was acquiring 279 Esso gas stations in Ontario and Quebec for \$2.8 billion.

Throughout all of these acquisitions, the company has kept the balance sheet in good shape. According to its most recent financial statements, its debt-to-assets ratio is still only approximately 25%, a very reasonable number. Even if that goes up with the recently announced acquisition, the company does generate more than US\$2 billion in EBITDA annually. That kind of cash flow can easily be directed towards paying off debt.

The problem

The problem isn't with Couche-Tard itself. The company is a terrific performer that still has a lot of growth potential. It wouldn't surprise me to see other oil companies get out of the convenience store business altogether, especially in today's environment. These companies may get to the point where they have to raise cash somehow, and Couche-Tard is the natural buyer of these assets.

The issue is with the price investors are paying.

At first glance, it doesn't seem so bad. According to Google Finance, Couche-Tard earned \$2.58 per share over the last year, putting shares at 22.3 times trailing earnings.

But those earnings have been artificially propped up by one-time gains. So even though the company will show higher revenue for its next fiscal year, analysts are expecting earnings to fall to \$2.12 per share. That puts shares at 27.2 times forward earnings, a number many investors would consider high.

When converting Couche-Tard's revenue back to Canadian dollars, it trades at a price-to-sales ratio of 0.76. Compare that to a U.S.-based competitor, **TravelCenters of America**, which only trades at 0.04

times sales.

No, that's not a typo.

That isn't a perfect comparison. TravelCenters gets the majority of its revenue from operating convenience stores themselves, while Couche-Tard is more of a franchise story. The business of operating truck stops is a little different than operating a corner store. And TravelCenters is starting to grow again after a few years of stagnant top-line numbers, but it'll never be the growth story Couche-Tard is. In fact, Couche-Tard may end up acquiring it.

But the point remains that if investors want to enter the sector, there are much cheaper options than Couche-Tard.

Couche-Tard is a wonderful company. But the market has essentially priced perfection into the stock today. If management executes and the company continues to grow like a weed, things should be fine. But if it stumbles, I fear investors who get in today may end up holding a stock that heads lower.

CATEGORY

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