Alimentation Couche-Tard Inc.: Time to Dump TSX?

Description

After days of rumours, it finally happened Tuesday morning.

Alimentation Couche-Tard Inc. (TSX:ATD.B) announced that it was buying San Antonio-based **CST Brands Inc.** (NYSE:CST) for US$4.4 billion—a deal that sees Alimentation Couche-Tard add more than 1,100 convenience stores and gas stations in Texas and other parts of the United States.

If Couche-Tard wasn't already considered to be in the big leagues of retailing—not just convenience stores and gas stations—the CST deal cements its reputation as an industry player. With the scope of its operations now truly global in nature, the big question is if the real action is on the NYSE or NASDAQ.

Lululemon Athletica Inc. (NASDAQ:LULU) dropped the TSX back in 2013 as a result of minimal trading, suggesting at the time that the cost of maintaining a dual listing wasn't justified given the volume generated here in Canada: "The company's listing with NASDAQ provides its shareholders with sufficient liquidity, as NASDAQ accounts for nearly all of the company's current trading volume."

Couche-Tard's situation is slightly different in that it isn't currently dual listed; it would need to seek a U.S. listing before making its shares available to retail investors south of the border. Canadian investors might view the move as an unnecessary expense, but consider that the latest acquisition makes Couche-Tard less Canadian and more international in nature.

When Lululemon dumped the TSX, it was generating about 34% of its revenue in Canada, 61% in the U.S., and the remaining 5% elsewhere. Couche-Tard's Canadian revenue in fiscal 2016 represented 11% of overall revenue, 68% in the U.S., and Europe accounted for the rest. In terms of gross profits, Canada is expected to generate 17% of the pro forma total with the U.S. and Europe 63% and 20%, respectively.

So, if Couche-Tard doesn't list in the U.S., it will miss out on a large group of retail investors who most certainly aren't buying its stock if it's not traded on a U.S. exchange. Current shareholders should want the company to cast as wide a net as possible. If not, Couche-Tard management is failing to maximize shareholder value—something it's never been accused of.

And there's one more reason why it should list in the U.S.

CST Brands holds a 19% equity stake in **CrossAmerica Partners LP** (NYSE:CAPL) and controls the general partner operating Cross America, a master limited partnership that distributes motor fuel to gas stations in 29 states. In addition, CrossAmerica owns or leases more than 750 sites in 21 states.

It’s possible that U.S. regulators would look more favourably on Couche-Tard maintaining its relationship with CrossAmerica if it traded on a U.S. exchange. I’m not saying this is what’s actually happening, but it certainly is within the realm of possibility.

I believe that it makes total sense for Couche-Tard to pursue a U.S. listing. As for dumping the TSX, that’s a more complicated answer. I personally would lean toward Couche-Tard following Lululemon’s footsteps, but that’s for management to decide.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:LULU (Lululemon Athletica Inc.)

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