Is the Dip in Alimentation Couche Tard Inc. a Buying Opportunity?

Description

Since opening its first convenience store in Quebec in 1980, **Alimentation Couche Tard Inc.** (TSX:ATD.B) has grown tremendously. In the past five years alone, its shares have appreciated more than 580%!

What are the drivers behind its growth? Is the 5% pullback from its all-time and 52-week high an opportunity to back up the truck?

First, here's an overview of Couche Tard's business.

The business

Couche Tard is a leading convenience store operator in North America, Scandinavia, Ireland, and the Baltics. It currently operates under the banners of Couche-Tard, Circle K, Mac's, Ingo, Statoil, Kangaroo Express, and Topaz, but it's in the process of rebranding to the Circle K banner, which is more well known. However, the company will leave the Mac's stores in Quebec as they are. From the rebranding, the company intends to drive traffic and sales.

Couche Tard has about 8,200 stores in North America, about 2,600 stores in nine countries or regions in Europe, and nearly 1,500 licensed Circle K stores in the rest of the world, including Asia, Costa Rica, and Egypt.

Growth

Couche Tard has a proven ability to integrate acquisitions. Since it acquired Circle K in 2003, it has integrated more than 5,900 stores from 52 acquisitions, including The Pantry and Topaz.

Couche Tard has a track record of disciplined growth and debt reduction. After each major acquisition, its financial leverage is higher than normal. However, in the years following the acquisitions, Couche Tard quickly reduces its debt, and its financial leverage goes to two to 2.5 times. No matter what, Couche Tard remains committed to its investment-grade status.

Since 2010 Couche Tard's gross profit has grown at a compound annual growth rate (CAGR) of 16%, its earnings before interest, taxes, depreciation, and amortization have increased at a CAGR of 24%, and its free cash flow has grown at a CAGR of 25%.

Often times Couche Tard can identify and realize cost synergies from integrating its acquisitions. Cost synergies can come from merchandise supply costs, operating costs, and fuel sourcing and distribution costs.

Other than its growth strategy via consolidating the fragmented industry, Couche Tard also focuses on improving its product offerings, including private label and fresh food products.

Dividend growth

Thanks to its double-digit growth in free cash flow generation, since 2010 Couche Tard has grown its dividend healthily at a CAGR of nearly 27%. Yet it’s only paying out about 10% of its earnings as dividends.

Conclusion

The **CST Brands** acquisition, which is expected to close early next year, will be a nice addition to Couche Tard and will bring Couche Tard’s North American store count to more than 10,100. As well, the acquisition will strengthen Couche Tard’s presence in Texas, which is a fast-growing and business-friendly state.

Even after retreating about 5% from its high, Couche Tard still trades at about 20.6 times its forward earnings at less than $65 per share. So, its shares aren’t exactly cheap. That said, it’s expected to grow at 13% on average per year in the medium term. So, some investors may be willing to pay the current high multiple for the quality shares.

If Couche Tard trades at about 18 times its forward earnings or lower at a maximum price of $57 per share, that would be an excellent entry point.

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