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The $4.4 Billion Bet: Will Alimentation Couche Tard Inc. Succeed?

Description

In August **Alimentation Couche Tard Inc.** (TSX:ATD.B) announced that it will acquire **CST Brands Inc.** (NYSE:CST) for $4.4 billion (including debt). The all-cash deal will be worth $48.53 per share–a 42% premium to CST's closing price.

The merger will be transformational.

Alimentation Couche Tard has always shown a propensity for sizable acquisitions. Since 2003 Couche-Tard has made 47 acquisitions, adding over 1,600 stores to its portfolio. It had announced four mergers in the last 12 months alone. The latest acquisition, however, will be its biggest ever.

Will this multi-billion-dollar bet pay off?

A company worth betting on

Growth through acquisitions is always a tough game. Acquirers typically have to pay purchase premiums (as Alimentation Couche Tard did), and the deals are usually financed either through added debt or dilutive equity raises. Sales and profits may rise, but overall shareholder value also struggles behind.

Alimentation Couche Tard hasn't had this problem.

In the last five years alone, shares have risen nearly 600% versus a TSX return of just 18%. Importantly, both earnings per share and cash flow per share have grown consistently, matching the share price's meteoric rise.

Fortunately, the tailwinds that have driven this success are here to stay.

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A runway for growth

Alimentation Couche Tard is a global leader in the convenience and fuel retail industry. The company commands recognizable global brands such as Circle K, Ingo, Kangaroo Express, and Statoil. These brands have given it leading market positions in Canada, the U.S., Scandinavia, and the Baltics.

The convenience store industry has shown an ability to grow sales each year, experiencing minimal sales declines during recessions. In fact, the industry was able to grow total sales in three of the past four recessions. Over the past 34 years, industry sales have increased 94% of the time.

The convenience store industry remains highly fragmented with plenty of growth opportunities for consolidators such as Alimentation Couche Tard. The CST acquisition, for example, allows the company to further diversify its operations and cash flow with a stronger presence in Texas–a fast-growing and business-friendly state.

Image Source: Alimentation Couche Tard Investor Presentation

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Past performance may indicate future results

Even after massively outperforming the market over the past 10 years, investors have plenty of reasons to believe Alimentation Couche-Tard can continue its impressive history. Over the next five years, management anticipates growing free cash flow by 9% a year. Meanwhile, its leverage should fall from 3.5 times net debt to EBITDA to just 1.4 times.

Strong cash flow coupled with disciplined capital allocation and debt repayments should provide the financial flexibility to reward shareholders through increased dividends and, down the road, another game-changing acquisition.

CATEGORY

1. Investing

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Date
2025/08/26
Date Created
2016/09/14
Author
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