

4 Reasons Why Alimentation Couche Tard Inc. Is Attractive Today

Description

Alimentation Couche Tard Inc. (TSX:ATD.B) has been an outstanding growth stock. Since opening its first convenience store in 1980, the company has grown into more than 12,000 stores around the globe.

It has roughly 7,800 stores in North America, about 2,700 stores in Europe, and more than 1,500 stores operated by independent operators internationally.

Since January 2016, Couche Tard has been rolling out its Circle K brand to replace its existing brands in the U.S. It has been doing the same in Europe since May 2016. The same process will commence in Canadian stores outside Quebec in May this year.

Strong track record

Fiscal 2016, which ended in April, was Couche Tard's eighth straight year of record earnings. It generated net earnings of almost \$1.2 billion. On a per-share basis, its net earnings increased by 16.7% compared to the previous fiscal year.

Couche Tard's return on equity has been above 15% since fiscal 2007 and above 20% since fiscal 2010, which is a sign of high profitability, and that it is generating value from its acquisitions and integrations.

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Continues to grow and improve

Couche Tard continues to grow organically and by acquisitions. It continually works to improve its revenue, identify synergies, and reduce costs.

For example, at the end of fiscal 2015, Couche Tard acquired The Pantry, from which it recorded \$58 million in cost reductions (before income taxes) during the fiscal year 2016.

With each acquisition and integration that Couche Tard does, it learns from it and applies that knowledge across its business, strengthening its global business over time.

The closing of the **CST Brands** acquisition, expected early this year, will further strengthen Couche Tard's position in North America, and it will be another source to learn from.

Valuation

The roughly 12% pullback of Couche Tard shares since mid-October provides an attractive entry point for long-term investors. At \$59.50, Couche Tard trades at a forward price-to-earnings ratio of 18.5 for an anticipated growth rate of 13-16%.

Dividend and its growth

Although Couche Tard yields only 0.6%, it has lots of room to grow its dividend. Its payout ratio remains low at about 11%, and its growing earnings will allow it to boost its dividend.

Couche Tard has raised its dividend at an annualized rate of 22.8% in the last seven years. Recent growth has been even stronger. The company's dividend in the last year was 40% higher than in the previous year.

The takeaway

It's true that Couche Tard has been growing for nearly four decades. However, it looks like it can continue growing at a double-digit rate. It's still integrating multiple acquisitions and benefiting from their synergies.

Moreover, CST Brands will be closing early this year, which should allow Couche Tard to maintain a high return on equity for the next two to three years.

Most importantly, the 12% pullback brings Couche Tard to an attractive valuation for long-term investors looking for growth and a growing income in a great company.

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