Alimentation Couche Tard Inc. Is Severely Undervalued

Description

The stock of **Alimentation Couche Tard Inc.** (TSX:ATD.B) has been a huge laggard over the past year. The stock is now 13.5% off its September 2016 high, and many investors are scratching their heads as to why the stock has been pulling back lately. There are a few reasons as to why the stock is retreating, but none have to do with the long-term fundamentals of the business.

The incredible management team is top-notch and they know how to deliver value for shareholders. They're firing on all cylinders, and growth is expected to be as high as ever over the next few years. The current pullback is an opportunity to get into a high-growth name at a huge discount to its intrinsic value.

Why is the stock pulling back?

The company hasn't reported any big news in quite some time, and investors are becoming impatient in the current bullish environment fueled by Donald Trump. Many investors are opting for riskier, cyclical names because everyone, including long-time bearish investor Prem Watsa, has suddenly turned bullish.

I believe this is a huge mistake because although Couche Tard hasn't reported terrific news on a consistent basis, the company is quietly growing its EPS by an estimated 37% this year. The company will catch many investors off guard once it releases its next few quarterly reports, and this could be the catalyst that lifts the stock into the atmosphere.

The company's last quarterly report was solid, but not amazing. Mostly because there were temporary issues that dragged both the top and bottom lines down. There was a natural disaster in the last quarter which negatively affected sales. Who's going to run out to the local convenience store in the middle of a hurricane? Nobody. But do hurricanes last forever? Of course not! This is an extremely short-term issue that turned off many short-term thinkers.

It's these kinds of short-term events that make long-term value investors drool. As Warren Buffett used to say, "…be fearful when others are greedy and greedy when others are fearful." The short-term issues from the last quarter are nothing to be afraid of; they don't affect the long-term fundamentals of the business whatsoever.

Sure, Couche Tard is in a defensive sector, but it's growing faster than most cyclical names, so why would you sell the stock because of a "changing environment?" Real value investors love to buy fundamentally strong businesses that are in an industry that is facing weakness. While others are selling incredible defensive names like Couche Tard, you should be buying.

Explosive growth at a discount

It's a common misconception that Couche Tard is an expensive stock in a low-growth industry. Sure, the convenience store business is simple and it's usually low growth, but Couche Tard is one of the rare exceptions. The management team is very good at finding value through M&A and juicing synergies from its acquisitions.

The convenience store industry is fragmented, so there's still a ton of room for the company to grow. I would compare today's convenience store industry to the drugstore chains of the 1990s. Back then, the drugstore chains were fragmented, but now this market is consolidated and dominated by just a few major players. I believe Couche Tard will eventually become a major player once the convenience store market becomes consolidated over the next decade.

TD Securities has an $87 price target on the stock, which represents a whopping 48% upside from current levels. This opportunity is beyond incredible. There's a huge margin of safety at current levels, so I'd strongly recommend loading up on shares while they're cheap.

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