Alimentation Couche Tard Inc. Is Ready to Take Off

Description

If you'd bought **Alimentation Couche Tard Inc.** (TSX:ATD.B) stock on December 15, 2015, today you'd have a 1.6% loss to show for 16 months' ownership. That's not the kind of performance long-time shareholders expect from Quebec's convenience store dynamo.

It's unbelievable to fathom that one of the past decade's best-performing stocks hasn't moved anywhere over the past year and a half, despite a 21% gain for the **S&P/TSX Composite Index** in 2016.

To say Couche Tard is in a funk is an understatement. Having said that, I believe ATD.B stock is ready to take off. Here's why.

Great integrator

Couche Tard earned its stripes as a well-run corporation by making significant acquisitions look easy. Everybody thought the US$2.8 billion Statoil deal in 2012 would be difficult to integrate, but Couche Tard didn't miss a beat. The same thing is true for its 2016 tentative purchase of **CST Brands, Inc.** (NYSE:CST) for US$4.4 billion — a deal that's expected to close by the end of June.

"These guys know what it takes to make these deals worthwhile," Greg Dean, a portfolio manager with Cambridge Global Asset Management, said last August about the CST deal. "They've been successful at growing by acquisitions for more than 30 years."

It sure has. Nobody integrates businesses faster and more efficiently than Couche Tard. Not only does it integrate well, but it manages to pay down debt quickly — a key factor in evaluating the success or failure of a deal one to two years down the road.

"They've got low leverage; they've got lots of room to tack it on," Diane Young, a fixed-income portfolio manager with Addenda Capital, said at the time of the deal. "They have a great track record of leveraging up for a transaction and paying down the debt within 12 to 18 months."

Missed opportunity

Investors have come to expect Couche Tard's acquisition announcements, so it was a surprise to many when 7-Eleven**,** America's largest convenience store operator (Couche Tard is a close second), announced in early April that it was buying 1,110 convenience stores from **Sunoco LP** for US$3.3 billion.

Couche Tard and 7-Eleven are in a battle to control the global convenience store market, and this is merely the latest salvo between the two companies. Couche Tard's CST deal hasn't even closed yet, so I think it's fair to cut Alain Bouchard, Brian Hannasch, and the rest of its management team some slack.

Once 7-Eleven and Couche Tard close their separate deals, there will be just four convenience store chains in the U.S. with more than 1,000 stores, making another big acquisition less likely for either company.

Couche Tard did try to buy **Casey's General Stores Inc** (NASDAQ:CASY) in 2010. Casey's is the fourth-largest convenience store chain in the U.S. with 1,931 stores. Its management rebuffed Couche Tard by borrowing heavily to repurchase 25% of its stock. It's possible that Couche Tard could try again; it would be its biggest deal ever. However, given it hasn't even closed CST yet, I wouldn't hold my breath.

Bottom line on Alimentation Couche Tard

Fool.ca contributor Joey Frenette thinks its stock is severely undervalued. It's currently trading at 17 times its 2017 earnings estimate of $3.58, so I'd be more likely to call it fairly valued given that it just delivered weak earnings with adjusted earnings per share of $0.53 in Q3 2017 — 13 cents lower than analysts were expecting.

Why do I think its stock is ready to take off?

You can't keep a good stock down. It will close the CST deal and carry on with its plan to conquer the world. Those who've owned its stock the past decade know that it doesn't always go up in a straight line.

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