Alimentation Couche Tard Inc.: Ride its 3-Part Plan for More Growth

Description

Alimentation Couche Tard Inc. (TSX:ATD.B) announced fourth-quarter earnings July 12. For the most part, they were solid results that bode well for the convenience store operator's future growth.

Executive Chairman Alain Bouchard and CEO Brian Hannasch have a three-part plan for growth. I believe their plan is why investors ought to continue to hold its stock, despite a mediocre performance so far in 2017; it's up marginally a little more than halfway through the year.

Fool.ca's Joey Frenette recently suggested that Couche Tard has some long-term catalysts to push its stock higher than $62; I couldn't agree more.

In May, I argued that Couche Tard's stock would begin to move higher after basically flat-lining for the past 16 months. Its Q4 2017 results do nothing to dampen my enthusiasm for its long-term performance.

A duplicatable system

As I stated at the top, Couche Tard has a three-part plan for growth, a plan that's been crafted from years of experience buying, integrating, and growing convenience stores in Canada, the U.S., Europe, and elsewhere internationally.

Most investors will look at Couche Tard's fourth-quarter results — net earnings of US$277.6 million on $9.6 billion in total revenue, 70.2% of it from fuel — and applaud the 36.1% and 30.1% growth in net earnings and revenue, respectively.

So they should.

That's darn good growth which doesn't even take into account the US$4.4 billion acquisition of CST Brands that was completed at the end of June and adds 1,263 stores to its global network.

Part one

Although the CST acquisition is the company's largest, Couche Tard has done many over the years in an effort to consolidate the global convenience store industry.

M&A is a part of its DNA.

Since 2004, Couche Tard has acquired more than 9,000 stores; all of them have been successfully integrated into the network, which is currently transforming to one brand under the Circle K banner. I've got a gas station and convenience store near where I live. The Circle K merchandising looks good.

Without its track record of making good acquisitions, long-time Couche Tard shareholders wouldn't be nearly as wealthy.

Part two

You can't make acquisitions without having a plan to integrate the stores purchased into your network. The CST acquisition is going to put its integration team to the test, but like its Statoil purchase, it will happen like clockwork.

"We continue to benefit from our excellence in integrating acquisitions and realizing associated synergies and our strong cost control culture and a pursuit of our ongoing quest for financial efficiency," stated CEO Brian Hannasch in its Q4 2017 press release.

At the end of the day, Couche Tard expects to find up to US$200 million in annual savings from CST once it's fully integrated in 2020. That goes right to the bottom line.

Part three

This last part of its growth plan is crucial to the future success of Couche Tard — both the company and its stock.

Without organic growth, no business is sustainable. Eventually, it self-implodes when acquisitions become too expensive or debts too burdensome.

In 2017, its comparable merchandise sales over a 52-week basis (there were 53 weeks in its fiscal year) grew by 2% in the U.S., 3.5% in Europe, and 0.1% in Canada; the latter is still feeling the effects of a weak economy in Alberta.

Meanwhile, in the same 52-week period, fuel sales grew on a comparable basis by 2.6% in the U.S., 1% in Europe, while declining by 0.3% in Canada; the silver lining in Canada is that gross margins of fuel increased by 19.5% to 7.7 cents per litre.

Same-store sales are going to slip from time to time, but when they do, it helps if you can boost margins to hold the line on profits, which it's done.

Bottom line

Alain Bouchard and Brian Hannasch have created a duplicatable process for growth that, from where I sit, appears far from broken.

The next leg up is just around the corner.

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Date
2025/08/25
Date Created
2017/07/13
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