# Alimentation Couche-Tard Inc.: Dividend Hikes? Yes Please!

## Description

Canadian investors looking to play recent weakness in retail stemming from the announced acquisition of **Whole Foods Market** (NASDAQ:WFM) by **Amazon.com, Inc.** (NASDAQ:AMZN) have been left with few decent options on the TSX.



Traditional large names like **Loblaw Companies Ltd.** (TSX:L) and **Metro, Inc.** (TSX:MRU) have sold off by approximately 15% since early May, a slide which started a month before the acquisition announcement, but one which has only picked up steam since then. Shares of **Alimentation Couche-Tard Inc.** (TSX:ATD.B) have dipped about half as much as Loblaw and Metro over the same time frame, and have generally traded sideways over the past two years as the company has continued to produce decent, albeit perhaps underwhelming results.

**Recent earnings miss adding to investor uncertainty**

This most recent quarter was a difficult one to assess for Couche-Tard, given the fact that the company simultaneously missed earnings expectations (driven by lower fuel margins and higher expenses overall), but blew dividend expectations out of the water with a 20% dividend increase. This increase has placated some investors who have been calling for such an increase for some time (the company's current yield sits at a measly 0.6% following the hike), however in the opinion of many investors, more needs to be done more quickly on this front.

While the company's management team has increased the dividend distributions to shareholders substantially, Couche-Tard's management team has also indicated it is willing to engage in additional acquisitions to boost growth. This most recent quarter, the majority of the company's growth originated outside of Canada, with the U.S. and European markets providing a larger boost that its base of Canadian locations. Speculation as to where the company may continue to acquire retail business abounds, but analysts generally believe Europe will be the focal point for the company in coming quarters.

**Bottom line**

Investors should look at Couche-Tard, a company which has been beaten up post-earnings, but one which is far more likely to rebound from the recent turmoil, in my opinion, than other retailers more reliant no food staples experiencing low price inflation (or even deflation in some cases); while gas margins remain the large overhanging headwind for the firm, the company's snacks and convenience category associated with Couche-Tard's integrated business model is one which should be more impervious to cost pressures.

Couche-Tard is one of the few retail businesses I would recommend investors take a deep look at in today's economic environment given the excess geographic diversification this company provides when compared to its competitors. Currently trading at valuation multiples which would place this firm near "value" territory, I believe this company has much more medium-term upside than rivals such as Loblaw or Metro today.

Stay Foolish, my friends.

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1. TSX:L (Loblaw Companies Limited)
2. TSX:MRU (Metro Inc.)



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