

Alimentation Couche Tard Inc. Posts Strong Q1 Results as Acquisition Mode Continues

Description

Alimentation Couche Tard Inc. (TSX:ATD.B) released its first-quarter results for 2018 on Wednesday. The company posted earnings of \$364.7 million, which are up 13% year over year. Earnings per share for the quarter of \$0.64 have also improved from \$0.56 a year ago.

What drove the improved bottom line?

Increased revenue was the primary driver in the company's net income growth as its profit margins remained intact at over 3%, similar to what was achieved in the previous year.

The company saw merchandise revenues increase by almost 10%. However, when looking at same-store merchandise sales the results were flat with just a 1.4% improvement outside Canada, while, domestically, sales dropped by 0.2%.

Couche Tard saw increased fuel consumption during the driving season as total volume grew by over 15%, but, once again, same-store sales were flat in all regions. However, fuel revenues in total were up over 20% year over year, and the Canadian segment saw fuel sales nearly double.

CST Brands Inc. is now included in Couche Tard's financials

The company's acquisition of CST Brands Inc. closed on June 28, and as of that date, Couche Tard's financials will now include the store's results. However, with the acquisition closing in late June, it will not be until next quarter for the results of CST Brands to be included in a full reporting cycle.

Rebranding continues to progress

The company announced that 1,800 of its locations in North America and 1,300 in Europe have been rebranded to reflect the Circle K brand and logo, which has replaced the Mac's design many consumers have long been accustomed to.

The company continues to expand and acquire

In May of this year, the company acquired 53 convenience stores from **Cracker Barrel Old Country Store, Inc.** in the U.S., which operate in Louisiana. In July, Couche Tard also purchased 53 fuel supply contracts from Empire Petroleum Partners, LLC which are based in the Atlanta area. Couche Tard also plans to open 49 more stores in future quarters as construction is underway on the new locations. In total, the company added over 1,300 locations in the past quarter, primarily through acquisitions.

Couche Tard is still working on closing the sale of its acquisition of Holiday Stationstores, Inc., which will add 522 locations in the U.S., as the company expands its presence in the Mid-West. The transaction has already been approved by the shareholders of Holiday and is expected to close in the

third quarter.

Lastly, Couche Tard also agreed to acquire 18 retail locations in Alabama from Jet Pet, Inc. This transaction is expected to close in Q3.

Is Couche Tard a good buy?

Couche Tard is struggling to find growth in its existing stores, and the company has recognized the main way for it to see growth is through acquisitions and new store openings. As long as it can maintain profit margins, it will be a fruitful campaign, but the risk is that the company can run into integration-related issues and costs that can slow earnings growth.

At a multiple of about 22 times earnings, the shares are not terribly expensive for a company that is making a strong commitment to growth. It is a good buy for investors, and the share price could get some upward momentum as these new acquisitions start making material contributions to the company's top and bottom lines.

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