



Alimentation Couche Tard Inc.: A Strong Long-Term Growth Play at a Value Price

Description

Alimentation Couche Tard Inc. (TSX:ATD.B) shares have gone nowhere for over two years now, and many growth investors have begun to lose hope in the M&A superstar which has seen its earnings slow down of late.

Couche Tard looks like it's suffering from a bad case of slowed growth, as acquisitions have been few and far between compared to its acquisitions of the past. The company is taking its time to digest its CST Brands acquisition, and although earnings haven't jumped by a large amount over the past year, I do not believe investors should be losing hope in what I believe is a fantastic long-term growth king that will inevitably break out of its funk.

Digesting recent acquisitions

The management team at Couche Tard knows how to generate a huge amount of value from the acquisitions it makes. Synergies are the name of the game, and if there are no incredible deals out there, then the company has no problems waiting until a better opportunity presents itself. Investors may be disappointed by the company's lack of deals of late, but patient investors will eventually reap the upside once the company announces its next major deal.

The perfect storm of short-term issues creates a magnificent entry point for long-term investors

Couche Tard has also been battling various short-term headwinds in the form of natural disasters over the past year. Hurricanes Harvey and Irma will negatively affect the top line; however, it's important to remember that such events are short term and will not hurt the long-term fundamentals. Over 123 stores were closed because of hurricanes, and there was a considerable amount of damage to stores in the affected regions.

Couche Tard has property insurance for the damaged properties, but it doesn't have interruption insurance. Business for the quarter was affected, and it's expected that a modest quarter will be up ahead, which may disappoint impatient investors. If a further sell-off happens, treat it as nothing more than a long-term buying opportunity. Although earnings are expected to be modest in the short term, the synergies from the CST Brands deal should produce EPS CAGR of over 20% through 2019.

Bottom line

Couche Tard is still an earnings-growth king with ample opportunities to grow earnings over the next decade and beyond. The current slowdown is not a sign of a secular slowdown; in fact, the convenience store industry is still extremely fragmented, and there are tonnes of potential deals that will inevitably be made over the next few years and beyond.

Shares of ATD.B currently trade at a 21.4 price-to-earnings multiple, which I believe is severely undervalued when you consider the long-term growth prospects. The perfect storm of natural disasters will hold back Couche Tard in the near term, but expect a major breakout once the dust settles and the management team gets back on the growth track.

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Date

2025/07/22

Date Created

2017/10/03

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