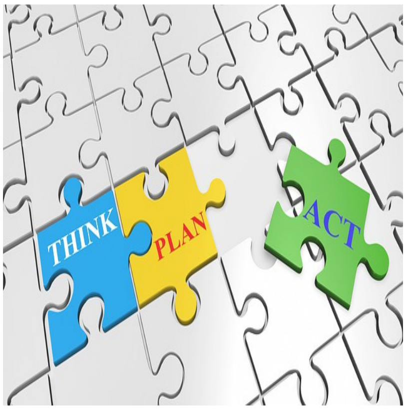

What Can Go Wrong When You Invest in Growth Stocks?

Description

Growth stocks can deliver extraordinary returns for your portfolio. However, when investing in them, there are some things that can go wrong. It's worth knowing what they are, so you may be more prepared when they occur.

Growth can slow

Growth stocks are likely growing their revenue, earnings, or cash flow at a high rate, and as a result, they will trade at high multiples. If their profitability metrics show any hint of slowing down, multiple contractions can occur and will weigh on the stock or cause the stock to go sideways.

This seems to be the case for **Alimentation Couche Tard Inc.** (TSX:ATD.B). Growing by acquisitions has been a core (and successful) strategy for the global convenience store and road transportation fuel leader. Since fiscal 2008, Couche Tard has had returns on equity of +15% every year, which shows that management has been an excellent capital allocator.

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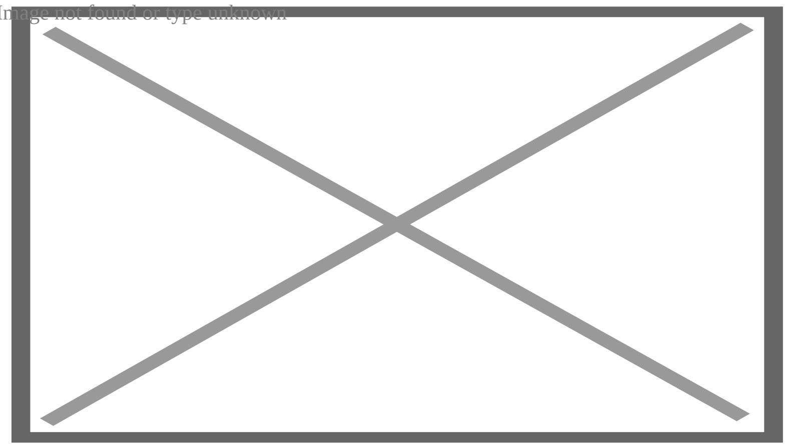

In late 2015, the stock was trading at a price-to-earnings multiple of ~22-24.

The stock's multiple has since contracted to ~19.5. Since late 2015, Couche Tard stock has largely traded sideways in a range.

As the company integrates CST Brands, its latest and largest acquisition, the market wonders where it will find growth next.

Some pundits believe Couche Tard is a strong candidate to potentially scoop up **Kroger's** convenience stores. Even if that's the case, Kroger's number of stores (784 stores) doesn't nearly match the 2,019 from the CST acquisition.

Notably, Couche Tard has been making good returns from its assets alone. In the most recent fiscal year, the company's return on assets was 9.1%.

Acquisitions can go wrong

Thanks to Couche Tard's global presence, the company can also look for acquisitions outside North America, including Europe, where it has a leading position in Scandinavia.

As mentioned before, Couche Tard has done well with its acquisitions over the long term. However, historically, companies that acquire others can overpay for them, take on too much debt to expand too quickly, or have integration problems. All of the above can lead to a huge downside in the stock price.

Investor takeaway

There are inherent risks in investing in growth stocks. For companies that use acquisitions as a core part of their growth strategies, investors should look for ones with great management that has a track record of successful acquisitions and integrations, which should lead to outstanding returns in the long run.

For the next few years, analysts think Couche Tard will grow its earnings per share by 14-16% per year. If so, at $60.40 per share, a price-to-earnings multiple of ~19.5, the stock trades at a discount for long-term growth.

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Date
2025/08/10

Date Created
2017/10/17
Author
kayng