

Alimentation Couche Tard Inc. Could Seek Further U.S. Expansion for This 1 Reason

Description

Shares of **Alimentation Couche Tard Inc.** (TSX:ATD.B) closed the trading day on October 31 up 0.25%. The stock has fallen 0.64% in 2017 and 10.3% year over year. The company owns and operates more than 12,000 retail stores around the world, including in the United States, Europe, Japan, China, and elsewhere.

In an October article, I [detailed](#) the marginal fall in retail sales in August, as reported by Statistics Canada. Supermarkets and grocery stores saw disappointing numbers, but one industry in particular posted the most troubling drop.

Convenience stores see retail sales plummet

Retail sales at convenience stores for the month of August dropped 3.7%, the biggest decline in any Canadian industry for the month. Convenience store retail sales are also down 3.3% year over year — a decline only beat out by home-furnishing stores. The decline stands in contrast to convenience store sales in the United States, which have posted an impressive year thus far.

What accounts for the decline in Canadian activity? It is anyone's guess, but convenience stores tend to be some of the most robust recession-proof assets. To account for the decline by pointing to Canadian GDP growth pace in the first half of 2017 would be a stretch. An improving economy should not produce the adverse effect seen here.

Canadian consumer debt levels may be playing a part, especially with a tightening interest rate environment shifting buying habits. A recent survey saw one in four Canadians report concerns that higher interest rates would impose a high financial burden, and seven in 10 said that they would look to change their spending habits in anticipation of higher rates.

Should you sell Alimentation Couche Tard?

The convenience store company reached an all-time high of \$68 in September 2016. The company released its fiscal 2018 first-quarter results on September 6. It closed the acquisition of fuel and convenience retailer CST Brands Inc. and posted net earnings of \$364.7 million, or \$0.64 per share, compared to \$322.8 million, or \$0.56 per share, in the previous fiscal year.

The company posted U.S. merchandise and service revenues of \$1.9 billion compared to \$320 million and \$477 million in Europe and Canada, respectively.

U.S. grocery retailer **Kroger Co.** is reportedly considering a sale of its stores. Some have targeted Alimentation Couche Tard as a suitable buyer as Kroger possesses over 780 convenience store locations across 18 states. Other U.S. convenience store retailers are also rumoured to be possible suitors for the Kroger brand.

Alimentation Couche Tard has boasted 273% growth in its stock over a five-year period. However, since September 2015, shares have been largely flat, putting its long-term growth prospects into question for investors. The stock also offers a modest dividend of \$0.09 per share, representing a 0.6% dividend yield. Leadership has said that it will look to make acquisitions strategically, and a push for Kroger would be surprising so soon after the CST Brands add.

A [slowdown](#) in the Canadian economy has the potential to make Alimentation Couche Tard more attractive as a defensive play due to the robustness of convenience store retail in tough economy times.

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aocallaghan

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