Alimentation Couche Tard Inc.: A Strong Buy Following Record Q2 Earnings

Description

Alimentation Couche Tard Inc. (TSX:ATD.B) reported an incredibly strong fiscal Q2 2018 in spite of the impact of hurricane season, which negatively affected stores located in the southern U.S. I believe the impressive quarter could be the start of a sustained rally to new highs, as the company finally has a reason to break out.

A fiscal Q2 2018 for the record books could send shares a lot higher

Couche Tard clocked in adjusted earnings per share of $0.80 for the quarter, up 38% and crushing analyst expectations of $0.71. Revenues were clocked in at $12.1 billion, a 44% increase on a year-over-year basis. The huge beat was thanks to the recent CST Brands acquisition, which still has an ample amount of synergies to be realized over the coming months.

In a previous piece, I'd mentioned that hurricane season would hurt sales and cause property damage, which could result in a sub-par quarter. While there were many store closures during the hurricane season, it was more than offset by CST Brands.

Approximately $4.8 million worth of property damages in Texas and Florida resulted from the hurricanes. Luckily, the company is insured for such damages, but with over 123 stores being temporarily closed — a great deal of business was lost due to the interruption.

It's quite remarkable that Couche Tard was able to deliver such strong numbers in spite of the disruption to business caused by the hurricanes. That means the next quarter will likely be off the charts, as the company reports an interruption-free quarter as more synergies are realized from its massive CST Brands acquisition.

Merchandise same-store sales (SSS) increased 0.7% in the U.S., 1.6% in Europe, and dropped 1.6% in Canada due to distribution challenges in western Canada and difficult weather conditions in eastern Canada. I find it likely that SSS growth in Canada will be reignited once the company's short-term issues are dealt with, and I believe global merchandise SSS is a reason for long-term investors to be excited. Sure, fuel volumes weren't great, but in a decade from now, when electric vehicles hit the road, merchandise sales will propel Couche Tard as the c-store industry changes.

Bottom line

Couche Tard's quarter truly deserves a round of applause, and the post-earnings rally was smaller than I would have expected; however, over the next few weeks, I expect shares to continue to climb out of limbo, as the company returns to the earnings-growth track.

Despite a tough environment, I believe Couche Tard will continue to put up an EPS CAGR of at least 20% over the next few years, as recent acquisition (CST Brands and Holiday) synergies continue to be unlocked.

Should Couche Tard begin to make acquisitions in the red-hot Asian c-store market, I suspect the company's EPS CAGR could surge past 25%. With the potential to sell cannabis in its stores over the next few years, I suspect shares of Couche Tard could easily double within four years as it makes up for lost time.

With an EPS CAGR of ~20-25% over the next few years, a 16.2 forward price-to-earnings multiple is a ridiculously small price to pay. I'd back up the truck today, as I believe shares of Couche Tard are extremely undervalued relative to the earnings-growth profile over the medium term.

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joefrenette