1 Industry, 2 Growth Stocks, 1 Buy

Description

Portfolio manager Peter Imhof manages almost $800 million for **AGF Management**, most of it in the AGF Canadian Growth Equity Class mutual fund. Recently, the *Globe and Mail* asked Imhof what stocks he's been buying lately. One of them is mid-cap serial acquirer **Parkland Fuel Corp.** (TSX:PKI).

Parkland, if you are unfamiliar with the gas station owner, has grown exponentially over the past six years, making 18 acquisitions worth US$2.4 billion. Its most recent deal, the October purchase of **Chevron Corporation's** Canadian downstream business for $1.5 billion (6.3 times EBITDA), saw it acquire 129 Chevron gas stations in B.C., a B.C. refinery, 37 commercial cardlock locations, and a wholesale aviation business at Vancouver's international airport.

CEO Bob Espey, who joined Parkland in 2011, kicking its M&A plans into high gear, is licking his chops when it comes to growing the company's small U.S. presence once it's had the opportunity to integrate the latest acquisitions and pay down some of its debt.

"It's easy to buy businesses — it's difficult to do it well," said Espey in a May 10th *Bloomberg* article. "We focus on doing it well and making sure that we are rigorous and understand what the opportunities are."

The game plan sounds familiar

This is the same approach that **Alimentation Couche Tard Inc.** (TSX:ATD.B) has used over the past two decades to become one of the world's largest convenience store operators.

Here you have the relative newcomer in Parkland, a mid-cap stock with a market cap of $3.5 billion, up against the wily veteran with a market cap that's 10 times the size of the Albertan company.

Logic suggests that PKI is the better stock to own given it is one-tenth the size and has a lot more growth ahead of it down in the U.S., where Couche Tard has fewer acquisition targets available that are big enough to move the needle.

However, investors never want to count out Couche Tard founder Alain Bouchard and CEO Brian Hannasch, who make a great team delivering oversized returns to shareholders.

Recently, Couche Tard's stock's been on a bit of a hibernation — up less than 1% in 2016 and down another 1% in 2017 until its 10.1% gain over the past three months — making some question if the tremendous roll it had been on the past 15 years was coming to an end.

Every time investors believe that Bouchard and Hannasch have run out of options, another one falls on their doorstep. Most recently, it was CST Brands; next, it could be **Kroger's** convenience store business, and that doesn't even take into account all the opportunities in Asia and Latin America that Couche Tard still has in its back pocket.

Where is each business financially?

Although the two businesses are slightly different in that Parkland is more of fuel distributor, it's still the second-largest operator of convenience stores in Canada, behind only Couche Tard, making it an apples-to-apples comparison.

The two metrics that I'm most concerned about here are the amount of net debt in relation to EBITDA and the financial leverage ratio, which I define as total assets divided by shareholder equity.

Parkland's net debt is $2.08 billion, or 8.8 times its TTM EBITDA of $235 million. Couche Tard's net debt is $6.29 billion, or 2.4 times its TTM EBITDA of $2.6 billion.

Parkland's total assets are $4.8 billion, 3.2 times its $1.5 billion book value.

Couche Tard's total assets are $20.6 billion, three times its $6.8 billion book value.

The first metric suggests Parkland has got a lot of work to bring its net debt in line with its EBITDA profits in comparison with Couche Tard. However, the financial leverage of both companies is very similar.

Bottom line, both companies have a similar capital structure in terms of the way they use debt and equity to finance their acquisitions. However, from a banker's perspective, Parkland is not generating enough in terms of operating profits to pay back the debt fast enough, although that will likely change as the latest acquisitions by the company are fully integrated.

Which is the better buy?

If it isn't broke, don't fix it. I believe that Couche Tard is one of the five best stocks to own on the TSX. Until Parkland cuts its net debt by half and ups its profitability, there's no question Couche Tard is the better buy.

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