Alimentation Couche Tard Inc. May Have Another Shot at Acquiring Casey's General Stores Inc.

Description

If you take a look at the long-term chart of **Alimentation Couche Tard Inc.** (TSX:ATD.B), it looks like a case of stagnated growth, but that's not actually the case. The earnings-growth superstar has definitely slowed down when it comes to the frequency of acquisitions, but it's worth remembering that Couche Tard finished closing its largest acquisition to date in CST Brands — a huge deal that's going to take a lot longer to digest to fully realize the potential synergies versus smaller acquisitions that have been made in the past.

A few years ago, when Couche Tard was one of the hottest momentum stocks on the TSX, you could expect an acquisition every few weeks, but these days, acquisitions are few and far between. That's not a sign that the market is consolidated.

In fact, that statement is far from the truth, as the global convenience store industry is still extremely fragmented with a ridiculously large amount of potential acquisition opportunities across the globe, including the red-hot Asian market, which co-founder Alain Bouchard is eyeing because of the potential for high double-digit CAGRs in the foreseeable future. The growth ceiling is still very high, and I don't think Couche Tard or any other c-store operator will finish consolidating the industry until at least a decade from now.

What's next for Couche Tard in 2018?

Couche Tard recently closed its Holiday deal, which will add 522 locations across 10 U.S. states. Over the course of the year, the company will be busy integrating the newly acquired Holiday stores and driving further synergies from CST Brands. Both deals should deliver synergies that are expected to drive earnings growth at ~20% over the next few years, so I believe Couche Tard could be ripe for a breakout later in the year after spending years consolidating.

In addition, I think management may make another offer for **Casey's General Stores Inc.** (NASDAQ:CASY) after failing to acquire the c-store giant over eight years ago.

Activist investors are pushing Casey's to make a move to unlock shareholder value

A group of activist shareholders have reportedly been pushing Casey's board to explore strategic alternatives, citing in a letter to shareholders that the board should "immediately engage a financial advisor to explore all strategic alternatives, including a potential sale, merger, or similar transaction in order to maximize shareholder value."

The activist shareholders claim that the management team at Casey's has been "unable to manage growth effectively," and that its rapid expansion has caused the company's ROIC to decline significantly.

Casey's has seen its ROIC nosedive from 12.91% in 2010 to just 6.9% in the trailing 12 months. The convenience store operator has been embarking on ambitious expansion plans, but it's clear that the stores would have been far better off under the management of Couche Tard.

If activists have their way with Casey's, I think a deal with Couche Tard could finally come to life, which would likely send Couche Tard shares into the atmosphere because of the potential synergy opportunities.

Couche Tard passed on Casey's in its takeover attempt many years ago, because the price wasn't right, but this time around, Couche Tard may end up getting the price that it's looking for, especially if activist pressures mount.

Bottom line

Couche Tard is a wonderful business with many tailwinds to be excited about in 2018 and beyond. The company has gone into hibernation, but I think it's about to wake up. This growth story is far from over, so I'd strongly urge investors to back up the truck while shares are still dirt cheap. You'll be getting ~20% EPS growth over the next few years at 16.4 times forward earnings. That's a steal.

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