Why Alimentation Couche-Tard Inc. Is Plummeting Over 6% Today

Description

Alimentation Couche-Tard Inc. (TSX:ATD.B) shares are plummeting today to the tune of 6.5% at the time of writing, as third-quarter fiscal 2018 results missed the mark and came in well below expectations.

While reported EPS benefited from the U.S. tax cut and came in at $0.82, normalized EPS was $0.54, significantly lower than consensus expectations of $0.74 and only a 1.9% increase compared to the same quarter last year. This is amid marginal same-store sales growth and declining margins.

Merchandise and service revenue, which accounts for 24% of total revenue, was unimpressive, with marginal same-store sales growth of 0.1% in the U.S. (18% of total sales), 3.6% in Europe, and 0.5% in Canada.

Road transportation fuel revenue, which accounts for 73% of total revenue, was particularly weak, with same-stores sales experiencing small declines due partly to Hurricane Harvey. Canada and Europe also saw same-store sales declines.

If you're like me, once you saw that you missed the spectacular run-up in these shares, you have stayed on the sidelines due to the valuation. Historically, a consumer staples name like this one has traded at much lower multiples than it has been trading at in recent years.

And now we are seeing the kind of performance from the company that drives home the message that maybe the stock does not warrant such a high valuation.

The stock had more than doubled from 2014 to 2016, but it has pretty much flat-lined since then, and while this has brought multiples down, is it really time to think about getting in?

The stock is still expensive, trading at 27 times fiscal 2017 EPS, 21 times this year's consensus EPS, and 18 times fiscal 2019 consensus EPS estimates.

So, it's a much more attractive valuation than it was back in 2015, when the stock was trading at 33 times earnings, and in 2016, when it was trading at 29 times, but given the growth rate we are seeing and the risk that estimates are too high after this quarter's miss, it still seems too richly valued.

Disappointing results, a growing debt burden (the debt-to-total-capitalization ratio is 53% at this point), and with valuations still high and a balance sheet that is getting stretched and is not as able to support further acquisitions, I would wait for a sharper pullback in the stock before thinking about investing in this name.

There is no denying that management has done a tremendous job growing the company profitably and with good returns to shareholders. In short, they have been good stewards of our capital.

But, the question is, how long can this aggressive acquisition strategy last? And are expectations that are baked in to the stock still a little too optimistic? I think there are signs that the company and the stock are due for a breather and that the current weakness in the stock price is not a buying opportunity.

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