



Alimentation Couche-Tard Inc. Misses Expectations in Q3: Is Pot the Answer?

Description

Alimentation Couche-Tard Inc. (TSX:ATD.B) released its quarterly earnings on Tuesday, which failed to impress investors, as the stock declined more than 6% on the results. However, both sales and profits were up year over year, so it might come as a bit of a surprise as to why Couche-Tard was down after what looked to be a strong Q3.

Let's take a closer look at the quarter to see just how well the company performed.

The highlights

Revenues for the quarter were up 38% from last year, and profit attributable to shareholders increased by 62%. Per-share earnings of \$0.82 were also well up from the \$0.50 that the company recorded a year ago.

Same-store sales not nearly as impressive

Couche-Tard has been building its growth from acquisitions as same-store sales have been struggling, and this has been [a recurring theme](#) for the company.

For the quarter, existing stores in the U.S. saw sales increase just 0.1% for merchandise revenues compared to 1.9% a year ago, while fuel volumes were down 0.4%, which was a big drop from the 2.8% growth that was achieved a year ago.

Canada, however, saw a slight improvement, as merchandise revenues grew 0.5% and were up from a decline of 0.9% in the prior year, while fuel volumes declined 0.3%, which is also less than then 0.8% decline that was posted last year.

Europe continues to show the most growth with merchandise sales growing 3.6% this quarter and up from 2.5% a year ago, although fuel volumes were just 0.5% and down from the 1.8% growth that Couche-Tard posted this time last year.

Company gets a big boost from taxes

Like many companies that we've seen already this year, Couche-Tard was a benefactor of the U.S. tax reforms that were passed late last year. The company recorded a net tax benefit of \$196.3 million for the quarter.

If we look at the company's earnings before taxes, Couche-Tard's numbers were actually down 14% from the prior year. Although its operating income of \$432 million was up 3% from last year, financial expenses more than doubled and eroded all of those gains.

This is yet another instance of where one-time benefits can easily [skew](#) a company's performance and inflate results.

Share price has lagged

Couche-Tard's stock has declined more than 9% to start the year, and these results could send the stock even further down. In the past 12 months, the stock is up just 1.5%.

One factor that could give the company a boost

Despite the underwhelming results, there is one variable that could give Couche-Tard a big boost: cannabis. The company has expressed interest in the past about selling pot in its stores (in provinces where it is legal to do so), and given the success that marijuana stocks have enjoyed, particularly **Aurora Cannabis Inc.** ([TSX:ACB](#)), which saw its stock quadruple in value last year, that could be an easy way for Couche-Tard to boost its top line in existing stores.

However, this would not solve the U.S. growth problem, but it would definitely have a big impact on Canada's sales.

Is Couche-Tard a buy?

Given the struggles we've seen in the retail industry, it's not surprising that we'd see some sort of a sell-off after Couche-Tard failed to meet expectations this quarter. However, it could create a good buying opportunity for value investors looking to get in at a good price, and the company's appetite for acquisitions could leave a lot of opportunity for future growth.

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