

Is Alimentation Couche-Tard's +6% Dip a Buying Opportunity?

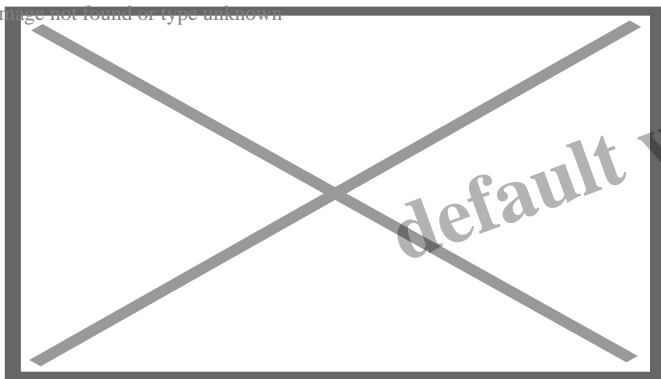
Description

There's no doubt that **Alimentation Couche-Tard Inc.** (TSX:ATD.B) has delivered tremendous value to long-term shareholders. Investors who bought the stock just before the last recession (i.e., about 10 years ago), would have seen their investment deliver price appreciation of almost 25% per year.

Couche-Tard's outstanding performance is attributable to great management decisions that led to returns on equity of at least 15% every year since 2008. Couche-Tard has been [a successful acquisition and consolidation story](#) in the convenience store and road transportation fuel space.

However, you'll notice that the stock "only" delivered upside of +9% per year before Tuesday's dip. Essentially, the stock has been in consolidation mode in the mid-\$40's to the mid-\$60's since 2015, when the stock traded at multiples of ~20-24.

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Why Couche-Tard dipped +6% on Tuesday

There are many possible explanations as to [why Couche-Tard dipped +6%](#) after releasing its third-quarter results. Among the reasons include weak U.S. same-store sales growth, which was 0.1%, as the U.S. is Couche-Tard's biggest market. Its same-store sales growth in Europe and Canada were 3.6% and 0.5%, respectively.

The company's earnings miss was also bad news. Expectations were high for the company to deliver double-digit growth, but diluted earnings per share only increased 1.9% for the quarter compared to the same quarter a year ago when excluding certain items.

Is the stock cheap after the dip?

From a valuation standpoint, at \$59.60 per share, Couche-Tard trades at a multiple of ~17.4, which is attractive for a company that's expected to grow at a double-digit rate.

Before the Q3 results, analysts estimated that the company will grow its earnings per share by at least 17% for the next 3-5 years. The consensus estimate will probably be reduced after the analysts make updates to reflect the recent results.

That said, I believe it's a good long-term entry point for Couche-Tard given its long-term track record of creating shareholder value. However, the company could still experience some headwinds from higher oil prices. When people spend more on gas, they'll likely spend less in Couche-Tard's convenience stores.

Thus, it's probably safer for interested investors to look for an entry point of \$55 per share or less. As usual, when in doubt, wait for support from the market before considering a buy.

Investor takeaway

For the time being, Couche-Tard is maintaining its nine-cent quarterly dividend; it recently yielded 0.6%. You can therefore see why investors tend to buy the stock for growth instead of income.

The company released disappointing earnings for its third-quarter results, and the stock fell +6%. However, Couche-Tard has consistently generated good returns on its assets and equity, and it should be just a matter of time before it delivers a great quarter.

The stock is a good entry point today, but investors looking for a bigger margin of safety should consider buying at \$55 per share or lower.

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