Want a Margin of Safety? Pick Up This Severely Undervalued Growth Stock Today

Description

Alimentation Couche-Tard Inc. (TSX:ATD.B) is a low-tech growth stock that appears to have a huge margin of safety at today's prices. The company just served up a disastrous third quarter, which caused many investors to finally throw in the towel on a stock that's been treading water for years. With the post-earnings sell-off being exacerbated by the recent market-wide pullback, I think a rare entry point has developed for deep-value investors looking for an easy-to-understand low-tech growth stock for the ages.

Couche-Tard is still a growth stock

Make no mistake. Couche-Tard is not suffering from stagnated growth, even though the long-term stock chart may be indicative of such. The company has the potential to grow its EPS in the high double digits in the foreseeable future, as it continues to further integrate and unlock additional synergies from the recently acquired Holiday and CST Brands convenience store chains.

Moreover, the growth ceiling remains as high as it's ever been. Even after years of consolidation, the global industry is still extremely fragmented, and over the next decade, Couche-Tard will continue forward with its M&A spree, as it targets smaller convenience-store chains across the globe that haven't lived up to their full potential. Couche-Tard will then scoop up the chain at a considerable discount to the underlying value of the assets; using its expertise, it will unlock ample synergies that few other convenience-store operators on the planet can match.

A barrage of issues has created an attractive long-term buying opportunity

Couche-Tard's latest quarter was plagued by many issues that were short term in nature, including hurricane disturbances and distribution warehouse problems. There were also medium-term issues plaguing the company in surging fuel prices and tougher economic conditions in western Canada.

Moreover, the company has definitely had a tougher (and longer) time digesting its largest acquisition to date, CST Brands, which has caused a lower frequency of smaller acquisitions than the past.

Leverage has increased considerably of late, which may cause less activity on the acquisition front. That is, unless a timely opportunity presents itself. For instance, activist investors are aggressively pushing for the sale of **Casey's General Stores Inc.**, which could mean that Couche-Tard may have the bargaining chips on its side this time around.

Bottom line

While I believe some post-earnings weakness was warranted, I think the magnitude of the actual decline was overblown. Given the company's seemingly endless growth runway, I think the stock is one of the biggest steals on the entire TSX today at just ~14 times forward earnings.

Furthermore, Couche-Tard stock is the cheapest it's been in recent memory, trading at a vast discount to its historical average based on many traditional valuation metrics, including P/E, P/B, P/S, and P/CF.

Given the low-tech, fairly predictable nature of the convenience store industry, I'd strongly urge investors to initiate a position today to obtain above-average returns over the next three to five years.

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