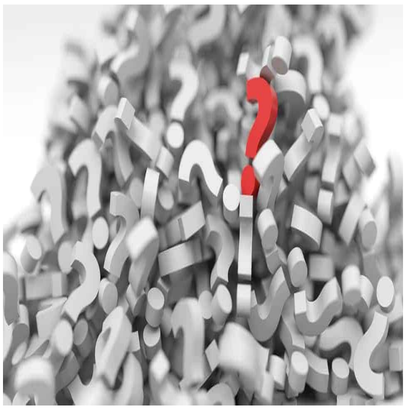

Will This Stunted Winner Ever Beat the Market Again?

Description

The first thing you may notice about **Alimentation Couche-Tard Inc.** (TSX:ATD.B) stock is that it's trading roughly at the same price as it was in mid-2015. In fact, the stock has traded in a sideways channel since then.

Couche-Tard used to be a market-beating stock

From 2008, before the last recession began, to mid-2015, a period of ~7.5 years, an investment in Couche-Tard stock returned 33.8% per year. The trajectory of the stock was propelled by the company's tremendous double-digit earnings-per-share growth for most of those years. A $10,000 investment would have transformed into +$87,500 in that period. It simply beat the market.

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What happened to the market-beating returns?

Since mid-2015, the stock has traded between roughly $52 and $68 per share. If investors had traded the stock, aiming to buy in the low $50s and sell in the high $60s, they would have had a chance at beating the market. However, it'd take unbending focus, great timing skills, and probably some luck to do so.

For the buy-and-hold camp, it has been tough. After all, Couche-Tard only offers a puny yield of less than 0.70%. However, the stock has increased its dividend at a tremendous rate. With a low payout ratio of ~11% and double-digit earnings-growth expectations, investors can expect more dividend hikes in the future.

Notably, Couche-Tard stock traded as high as a price-to-earnings (P/E) ratio of ~24.8 in the period. Since mid-2015 when it traded at a P/E of ~22.6, the stock has traded sideways, and now earnings have more or less caught up, which means we could see the stock finally break out of that sideways range in the next year or two.

The very long-term normal P/E of the stock is ~19.2. Its 10-year normal P/E is ~17.1. Those investors who paid a multiple north of 20 might have done so because the company increased its earnings per share by 19-59% per year in that period.

Now that the stock trades at ~$54.40 per share, a P/E of ~16.5, the stock looks more fairly valued trading much closer to its 10-year normal multiple. The analyst consensus from **Thomson Reuters** estimates Couche-Tard will grow its earnings per share by 17.8% per year for the next three to five years. If this growth rate were to materialize, it wouldn't be surprising for an investment in Couche-Tard today to deliver ~15-17% per year for the next three to five years.

The takeaway for investors

Although Couche-Tard has been trading in a sideways channel for almost three years, the company has been delivering on its profitability metrics: its returns on assets, returns on equity, and returns on invested capital were ~9%, ~22-27%, and ~14-17%, respectively, in the past three fiscal years.

Couche-Tard continues to integrate the huge acquisition of CST Brands. As of February 4, Couche-Tard reached annualized synergies run rate of ~US$103 million per year for the acquisition. Once the company reaches the full potential of the synergies, it will be able to pay down its debt quicker.

The leading convenience store consolidator and operator has generated significant long-term shareholder value. Now that its earnings have caught up to the share price and the stock is reasonably valued, it's time to consider adding to the stock, which could beat the market as soon as next year.

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