Dollarama Inc. Stock Still Going Strong, but Alimentation Couche-Tard Inc. Stock Is on Sale

Description

Alimentation Couche-Tard Inc.'s (TSX:ATD.B) stock has plummeted 19.6% so far in 2018. There will be a time to jump into this stock, but is the time now? Well, a look at the company's recent results, its outlook going forward, and its valuation, all scream YES!

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With a global network of 10,000 stores globally, the company has a history of profitably growing, both organically and through acquisitions.

The company's debt load rose again last year as a result of its continued aggressive acquisition strategy, which has seen three transformative acquisitions in the last three years, with the $1.7 billion acquisition of 279 Esso brand gas stations being one of the latest.

Strong cash flows is one of the key characteristics of Couche-Tard's business model, as demonstrated by the company's free cash flow generation of over $900 million in the last three years, its 17% five-year compound annual growth rate in free cash flow, and a respectable free cash flow margin of over 2%.

So, although the debt-to-total-capitalization ratio remains high at 54%, the company's strong cash flow generation can easily support this.

Going forward, we can expect continued synergies from Couche-Tard's recent acquisitions as well as deleveraging of the balance sheet.

The current valuation is more attractive than it has been in a long time, with the stock trading at a P/E ratio of 24 times last year's (2017) earnings and 20 times this year's expected earnings.

Dollarama Inc.'s (TSX:DOL) stock valuation story contrasts with Couche-Tard's in that it is a stock that remains very highly valued — we might even say it's overvalued.

While it’s difficult to criticize this company, as it has done all the right things in its execution of its strategy and in its phenomenal growth plan, it is easier to find issue with its valuation.

The stock has been a stock market darling for a long time now, and for good reason.

With a massive expansion behind it, Dollarama has increased its Canadian store count from 700 stores in 2012 to more than 1,000 stores today.

And this has been done profitably, generating big shareholder value in the process, growing revenue at a compound annual growth rate of 12% since 2014, and more than doubling its earnings per share during the same period.

But can Dollarama continue to outperform in 2018 and beyond?

Well, it sure looks like it, with management recently announcing that their existing Montreal-area distribution centre will be expanded by 50% and that they plan 60-70 net new stores in both fiscal 2018 and 2019.

Plus, a three-for-one stock split will be instituted, and a 17% increase in its dividend was announced.

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But for all of the company’s exceptional performance, one cannot say that investors can buy into the stock at attractive valuation levels. We are certainly asked to pay up for this quality company. The stock trades at 33 times 2017 earnings and 29 times this year’s earnings estimate.

And while it has been worth it in the past, maybe looking into a couple of our other options in the retail space, such as Couche-Tard, would be a good idea.

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