

## Alimentation Couche-Tard Inc. (TSX:ATD.B) May Be 1 of the Most Misunderstood Stocks on the TSX

### Description

**Alimentation Couche-Tard Inc.** (TSX:ATD.B) used to be one heck of a momentum stock, but over the last few years, shares have stagnated such that the long term is indicative of a stalwart that's hit its growth ceiling.

While the stock's been treading water while not rewarding investors with anything more than a meagre dividend that currently yields 0.6%, the company is nowhere near reaching its full potential.

In fact, Couche-Tard is an international growth story that has [decades' worth of explosive growth](#) ahead of it, as it looks to consolidate the incredibly fragmented convenience store industry. As far-fetched as this sounds, the best days may still be ahead of the company in spite of its already sizable \$32.8 billion market cap.

### What has Couche-Tard fallen out of favour?

Couche-Tard ran into what I've referred to as ["the perfect storm"](#) of problems.

Everything that could have gone wrong likely went wrong for Couche-Tard. From unfavourable weather conditions to lower fuel margins. From supply-chain problems to concerns over the disruptive potential of autonomous vehicles (AVs).

To exacerbate the issues, Couche-Tard's massive acquisition of CST Brands took a lot longer to digest than any of its previous acquisitions, leading to a slower rate of smaller acquisitions that Couche-Tard used to make. These smaller but more frequent acquisitions drove the stock price over the short term, reminding investors that each deal it made would create huge value for long-term shareholders.

Driving synergies was the name of the game, but now that the pace has slowed, many investors are wondering where the growth has gone. Couche-Tard always used to be in the news with some new deal, but these days, the company isn't news-worthy anymore.

With fewer meaningful deals being made, less visibility into what's been going on lately (other than the Circle K branding roll-out), and concerns that the company has lost its way, it's not a mystery as to why the stock can't seem to break out past its long-term ceiling of resistance.

### Not much of an incentive for long-term investors...

The minuscule dividend simply isn't enough of an incentive to keep investors hanging on to the stock if it's not moving up in price. And with other high-momentum plays out there, Couche-Tard has really paled in comparison.

Why should investors hang in there?

Supply-chain issues, poor weather conditions, and low fuel margins were all likely one-offs. In addition, there are still plenty of synergies that have yet to be squeezed from the massive CST Brands (and Holiday) deals. Moreover, consumer spending is likely to increase in the U.S., there are many reasons to believe that modest same-store-sales growth numbers will pick up over the next two years.

Furthermore, Couche-Tard has just begun to respond to rapidly changing consumer demands. The company is a likely candidate to capitalize off the healthier consumption trends of millennials, who value convenience as much as they value healthy eating. The convenience store king is transitioning to cage-free eggs and will likely begin to offer “healthier” organic foods, as it steers away from being a convenience store that’s known primarily for its junk food.

In addition, as cannabis distribution regulations ease, I find it increasingly likely that Couche-Tard will become a trusted distributor of cannabis products to consumers who are of age.

As for concerns over the rise of AVs?

I believe the trend is still five years away from having a meaningful impact to Couche-Tard’s bottom line. Moreover, the company has already tested charging stations in Norway, and they’ve shown promise. The future of the convenience store looks a lot brighter than many of today’s investors believe.

### **Bottom line**

There have been a tonne of concerns over the past year or so, but investors ought to consider the path that lies ahead, not the rocky road that’s already behind us.

Most of the issues that Couche-Tard has faced are short to medium term in nature. For those willing to wait it out, I believe there are profound returns to be had once Couche-Tard finally begins to make up for lost time.

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