Is Alimentation Couche-Tard Inc. (TSX:ATD.B) Stock a Buy After Posting Explosive Growth in Q4?

Description

Alimentation Couche-Tard Inc. (TSX:ATD.B) reported its fiscal 2018 fourth-quarter and full-year results at the close of markets on Monday, which were very strong and much better than expected. The stock rallied almost 7% on Tuesday. Is it time to buy the stock? Let's look at the results to determine if Couche-Tard deserves a place on your buy list.

The results that fueled the stock rally

In the fourth quarter ended April 29, Couche-Tard profit jumped 41.5% to US$392.7 million or US$0.70 per share.

Excluding one-time items, the convenience store operator earned US$336 million, or US$0.59 per share, an increase of 13.5% from the fourth quarter of 2017. This beat analysts' estimates of US$0.55 per share.

This rise in earnings was mainly driven by the company's CST and Holiday acquisitions and organic growth. Higher fuel margins and a lower income tax rate also contributed positively to earnings, but were partially offset by higher financing expenses as well as by one less week in the fourth quarter of 2018 compared with the fourth quarter of 2017.

Total merchandise and service revenues rose 25% to US$3.2 billion. Same-store merchandise revenues increased by 1.8% in the U.S. by 4.3% in Europe and by 3.6% in Canada.

For fiscal year 2018, diluted net earnings per share increased 39.2% to US$2.95, while adjusted diluted net earnings per share increased 17.6% to US$2.60.

Revenue jumped 41.5% to US$13.6 billion for the fourth quarter of fiscal 2018. For the full year, revenue increased 35.6% to US$13.5 billion as compared with 2017, making Couche-Tard Canada's largest company by revenues. The return on equity for the quarter was strong at 24.8%.

In light of those strong results, Couche-Tard increased its quarterly dividend by 11.1% to $0.10 per share, which gives it a yield of 0.66% at the current share price.

Synergies and extra revenues brought by acquisitions

The integration of the company's new acquisitions is going well. Couche-Tard realized synergies of US$153 million in less than a year with CST.

The company expects that synergies will total US$215 million over the three years following the close of the transaction. That means about 71% of expected synergies is already realized. These synergies should reduce operating, selling, administrative, and general expenses, as well as improve road transportation, fuel, and merchandise distribution and supply costs.

In addition, for the first quarter since the acquisition, CST cites that same-store merchandise revenues were positive both in the U.S and in Canada.

Acquisitions contributed an extra US$8.7 billion in revenues in the past year.

Couche-Tard added more than 2,100 stores through new openings and acquisitions and now has more than 12,700 stores in North America and in Europe. The company is looking for new acquisitions and would like to expand in Asia.

What about the stock?

I think that Couche-Tard's fourth-quarter growth is very impressive. The synergies that this company is able to realize show that it is very good at integrating the companies it acquires. In addition, because of its global presence, Couche-Tard benefits from scale advantages and geographic diversification.

The stock is very cheap relative to its expected growth, with a five-year PEG of 0.82. Earnings are estimated to grow at an average annual rate of 17.5% during the next five years. This is better than **Loblaw Companies Ltd.** and **Canadian Tire Corporation Limited**, which have five-year expected growth rates of 8.3% and 13.2%, respectively.

After showing returns in the double digits from 2009 to 2015, shares haven't risen much due to temporary issues. That explains why the stock's compound annual growth rate of return (CAGR) over 10 years is very high at 31.4%, while its three-year CAGR is only 5.4%. Its year-to-date return is even negative at -7.2%.

But the day after fourth-quarter results were released, the stock soared almost 7%. I expect the stock to keep rising fast since the best days seem to be ahead for Couche-Tard. There is still plenty of growth left for this company and the stock is undervalued, so it deserves a place on your buy list.

In my opinion, Couche-Tard is one of the best Canadian stocks to buy and hold for a long time.

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Author
sbchateauneuf