



## Is Alimentation Couche-Tard Inc. (TSX:ATD.B) a Buy, Hold, or Sell?

### Description

Since I chose **Alimentation Couche-Tard Inc.** (TSX:ATD.B) stock as [a top stock idea](#) in June, the growth stock has appreciated more than 14%.

Notably, we can try our best to pick up quality stocks at bargain prices, but it's up to the market to move the stock higher. Most of the time, such moves are triggered by good news.

Is Couche-Tard still a good buy today? First, let's quickly review its recent results.



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### Couche-Tard's fiscal Q4 results

Couche-Tard's recent quarterly results were certainly good news. Compared to the same quarter last year, its diluted earnings per share increased 42.9% from \$0.49 to 0.70.

Investors should note that after subtracting certain items for both quarters, the diluted earnings per share (or adjusted earnings per share) increased 13.5% from \$0.52 to \$0.59. The latter gives investors

a metric to focus on as it's normalized.

Couche-Tard also saw its total merchandise and service revenues increase by 25% to \$3.2 billion. Its same-store merchandise revenues increased in all the regions that it operates in, including a growth of 1.8% in the United States, 4.3% in Europe, and 3.6% in Canada.

In the fourth quarter, Couche-Tard reached about \$153 million for the annual synergies run rate related to the CST integration. Management noted previously that the annual synergies can reach about US\$215 million over the next few years.

### **Couche-Tard's full-year results**

For fiscal 2018, Couche-Tard's diluted earnings per share increased 39.2% from \$2.21 to 2.60, while its adjusted earnings per share increased by about 19.5%. The convenience store leader had a high return on equity (ROE) of 24.8%.

### **A recession-proof business?**

Couche-Tard has achieved ROE of about 20% every year since fiscal 2009, which means that it's been investing in the right places. Despite a recession in 2008-2009, Couche-Tard managed to increase its adjusted earnings per share by 36% from fiscal 2007-2009. This indicates that the business may be recession proof.

### **Dividend growth**

Couche-Tard just increased its quarterly dividend per share by 11.1%. The new dividend will be paid to shareholders on record as at July 18 on August 1.

At about 0.6%, Couche-Tard's yield is puny, but with a low payout ratio of less than 15% and double-digit profitable growth expectations, Couche-Tard can continue increasing its dividend at a double-digit rate.

### **Valuation**

Couche-Tard is estimated to grow its earnings per share by about 15% per year for the next three to five years. At about \$62.20 per share, the stock trades at a blended multiple of about 17.8. So, it's still undervalued for its growth potential.

Some analysts have an \$80 price target for the [growth stock](#). However, the stock is still trading within the sideways channel that began in 2015. It needs to break above the \$68-per-share level to go higher.

### **Investor takeaway**

Couche-Tard has been rebranding its stores under its international brand, Circle K. As of Q4, +3,350 North American and +1,650 European stores display the Circle K brand. This initiative can improve brand awareness and allow Couche-Tard to save on advertising costs, which can lead to higher profitability.

The convenience store leader is a great core holding that is undervalued today. If it falls to the low\$50s again, it'll be an even greater buying opportunity.

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