Alimentation Couche-Tard Inc.: (TSX:ATD.B) Stay the Course and You'll Be Rewarded

Description

Alimentation Couche-Tard Inc. (TSX:ATD.B) stock is back in limbo in spite of an excellent quarter that crushed analyst expectations on the bottom line. Although shares rallied by a significant amount in the trading sessions following the quarter, the stock has begun to pull back to the high $50 levels again, where the stock has hovered for about three years.

Not only is Couche-Tard in the business of consolidation, but so is the stock. At this point, it looks like another push is needed to get the stock through the long-term level of resistance of around $68. And while double-digit EPS growth numbers are in the cards from additional synergies that are to be squeezed, I can see why many investors have grown tired of the flat lined company and have begun to throw in the towel.

Make no mistake: Couche-Tard is still a growth play. It has a promising growth runway ahead of it, and with management continually hinting at an expansion into the high-margin Asian market, investors ought to realize the potential of the longer-term story, which is still very much intact.

With the lack of an incentive to hang onto shares in the meantime, however, it's hardly a mystery as to why Couche-Tard may be seen as a trading stock and not one to own. "Buy at the mid-$50 levels and sell once it breaks the $60 level" has been quite a profitable strategy thus far.

The 0.67% dividend isn't at all attractive to shareholders despite being raised by fair amounts on a consistent basis. As a growth play, the name isn't delivering capital gains, so it's a dud for the growth-savvy investors. With a meagre dividend yield, the stock isn't at all appealing to value-conscious dividend investors either.

Perhaps management should more than double its dividend overnight as **Restaurant Brands International Inc.** did?

That'd put the dividend yield at around 1.5%, which still pales in comparison to other plays out there, but once you factor in the dividend growth potential, I think the move would definitely discourage trading activities that have caused what seems like a prolonged period of consolidation that'll be really hard to break out of.

Over time, however, I do believe that Couche-Tard will break through naturally once management puts its foot back on the M&A pedal. Such acquisition announcements will spark instant share rallies due to the immense value that's realizable in the form of synergies.

Management has the magic touch. It can turn mediocre c-store operations into the epitome of efficiency in just a matter of quarters. Don't think that management has lost its way simply because the frequency of deals has slowed down, however. When Brian Hannasch and company are ready to put the pedal to the metal again, shares will return to glory, and a dividend doubling won't be necessary to "bribe" investors to hold and not trade its stock.

When Couche-Tard does finally begin to announce its next series of deals, you'll want to be in the stock, even if resistance levels suggest you should sell shares at the $60 level of resistance.

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