

What's Next for Alimentation Couche-Tard Inc. (TSX:ATD.B)?

Description

Alimentation Couche-Tard (TSX:ATD.B) delivered in a big way for investors. After dismal third-quarter results sent the stock crashing, all eyes were on the company's [fourth-quarter results](#).

The results speak for themselves. Alimentation Couche-Tard beat on both the top and bottom lines. It grew net earnings and revenues by approximately 42% year over year. Likewise, the company posted organic same-store sales growth across all regions, including Canada, the U.S. and Europe. It also marked the first time since the CST acquisition that both U.S. and Canadian same store sales grew at the same time.

After jittery third-quarter results, investor confidence was restored.

What's next for the company?

Rising dividend

Alimentation Couche-Tard is mostly known as a growth stock. But did you know that it is also an attractive income play? The company's 0.67% yield is nothing to get excited about, but it is growing at a double-digit pace.

From 2014 to 2017, the company's dividend more than doubled. Alimentation Couche-Tard is also part of an exclusive dividend growth club: Canadian Dividend Aristocrats. This list, home to approximately 100 TSX-listed companies, features only those who have a dividend growth streak of five or more consecutive years.

Along with blowout year-end earnings, the company raised its dividend by 11.1% extending its growth streak to nine years. This places the company among the top 50 Canadian dividend growth companies. The dividend only accounts for 53% of earnings, which leaves plenty of room for continued dividend growth.

Valuation

Post earnings, Alimentation Couche-Tard's share price jumped almost 10%. It hit a three-month high of \$63.48 before retreating below \$60, where it has languished since third quarter results. The most recent price drop however, is no fault of its own. The broader market has been in bearish territory for the better part of the past two weeks.

The recent price action has provided yet another opportunity to get this [high-quality stock at a discount](#). The company is trading at a very respectable 18 times earnings considering that it's expected to grow earnings by the double digits through 2020.

It's price-to-earnings (P/E) to growth (PEG) ratio is 0.97. A PEG below one signifies that the company's share price is undervalued.

Price targets

There are 13 analysts currently covering the company and there is unanimous consensus: Alimentation Couche-Tard is a "buy." The average one-year price target is a whopping \$74.42; this is approximately 25% above today's price.

The company is also trading at a discount to its five-year historical P/E average of 21.9. Should the company revert to historical averages, investors would be looking at upside of approximately 17%.

What is the fair value of the stock based on the popular discounted cash flow model? Assuming a conservative three-year earnings growth rate of 15% before leveling off to 5% thereafter, Alimentation Couche-Tard's fair value is \$72.13.

At today's prices, Alimentation Couche-Tard offers significant value. Don't miss out.

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