



Is Alimentation Couche-Tard Inc. (TSX:ATD.B) Stock a Buy After Posting a Strong Q1?

Description

Alimentation Couche-Tard (TSX:ATD.B) reported its fiscal 2019 first-quarter results at the close of markets on Wednesday; results were very strong and better than expected. The stock rose more than 5% on Thursday morning.

Is Couche-Tard's stock a buy? Let's look at the quarterly results to see if this stock should be on your buy list.

Another strong quarter for the convenience store operator

In the first quarter ended July 22, Couche-Tard's profit jumped 25% to US\$455.6 million, or US\$0.81 per share.

Adjusted profit was US\$498 million, or US\$0.88 per share — an increase of 31% from the first quarter of 2018. This beat analysts' estimates of US\$0.82 per share.

The rise in earnings was mainly driven by higher fuel sales, contribution from acquisitions, organic growth, and a lower income tax rate, but it was partially offset by higher financing expenses following Couche-Tard's recent acquisitions.

"During the quarter, we had parts of our network that benefited from better weather than last year, particularly in Europe and Eastern Canada. As first seen in the fourth quarter of fiscal 2018, all geographies also continue to see improving traffic trends, partially driven by the ramping up of our promotional marketing and advertising initiatives, as well as by strong consumer spending," stated Brian Hannasch, Couche-Tard's president and CEO.

Global fuel volumes increased 32% as fuel revenues reached \$10.9 billion, up from \$6.8 billion a year earlier, mainly because of acquisitions.

Same-store road transportation fuel volumes grew 0.6% in the United States but decreased by 0.1% in Europe and by 3.3% in Canada. Fuel volumes in Canada were hurt by a two-month lag until the ending

of Esso's affiliation with Aeroplan in June and the early August startup with PC Optimum.

Couche-Tard's revenue from its convenience stores, which include brands such as CST, Holiday Stationstores and Circle K, rose 27.6% to \$3.5 billion. Same-store sales were up 4.2% in the U.S., 7.3% in Europe and 6.6% in Canada.

Couche-Tard acquired Texas-based CST in August 2016 for \$4.4 billion to expand its presence in the southwestern United States. Current annual synergies due to the CST integration reached approximately \$189 million.

Couche-Tard expects that synergies will total US\$215 million over the three years following the close of the transaction, which happened in June 2017. That means in only one year, 88% of expected synergies have already been realized.

Total revenue jumped 50.2% to US\$14.8 billion in the first quarter of fiscal 2019, while analysts expected a revenue of US\$13.9 billion. The return on equity for the quarter was strong at 24.8%.

Chief financial officer Claude Tessier said that strong cash flow generated during the quarter is allowing the company to accelerate its debt-reduction efforts.

Couche-Tard is in the process of switching its global brand to Circle K everywhere except in Quebec. More than 3,650 stores in North America and more than 1,700 stores in Europe have been re-branded.

Should you buy Couche-Tard's stock?

Couche-Tard reported [another better-than-expected](#) quarter. The company is showing that it is able to [integrate its acquisitions](#) well, as shown by the synergies realized.

Earnings are still growing at a strong rate, and that will be the case for the next few years, as earnings are expected to grow at an average annual rate of 15% over the next five years. The stock is still reasonably priced relative to the company's expected growth, with a five-year PEG of one.

After a difficult start of the year, Couche-Tard's stock is on a rising trend, gaining 13% in the last three months. I expect the stock to continue its upward path, so it's a buy for me. From my point of view, Couche-Tard is one of the best Canadian stocks to buy at the moment.

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