



Can Alimentation Couche-Tard Inc. (TSX:ATD.B) Break Above \$68 Per Share This Time?

Description

On an initial look, it seems the stock of **Alimentation Couche-Tard** (TSX:ATD.B) hasn't done much for a few years. It has traded in a sideways channel in the period. But if you had bought on the recent dips in April or May at about \$53 per share, your investment would have appreciated about 25%! Buying on dips in quality companies is a proven strategy for wealth building.

Recent positive results

Last week, Couche-Tard delivered strong quarterly results that supported the rally.

Here are some key metrics compared to the same period in fiscal 2018:

	Q1 fiscal 2018	Q1 fiscal 2019	Change
Net earnings	\$364.7 million	\$455.6 million	24.9%
Diluted earnings per share	\$0.64	\$0.81	26.6%
Adjusted net earnings per share	\$0.67	\$0.88	31.3%

Couche-Tard achieved total merchandise and service revenues of \$3.5 billion — an increase of 27.6%. It experienced same-store merchandise revenues growth in its key regions of operation, including an increase of 4.2% in the United States, 7.3% in Europe, and 6.6% in Canada.

Its merchandise and service gross margin was 33.5% in the U.S., 42.4% in Europe, and 34.5% in Canada with mild expansions in the U.S. and Europe, and a mild compression in Canada. And its total road transportation fuel volumes increased by 31.9%.



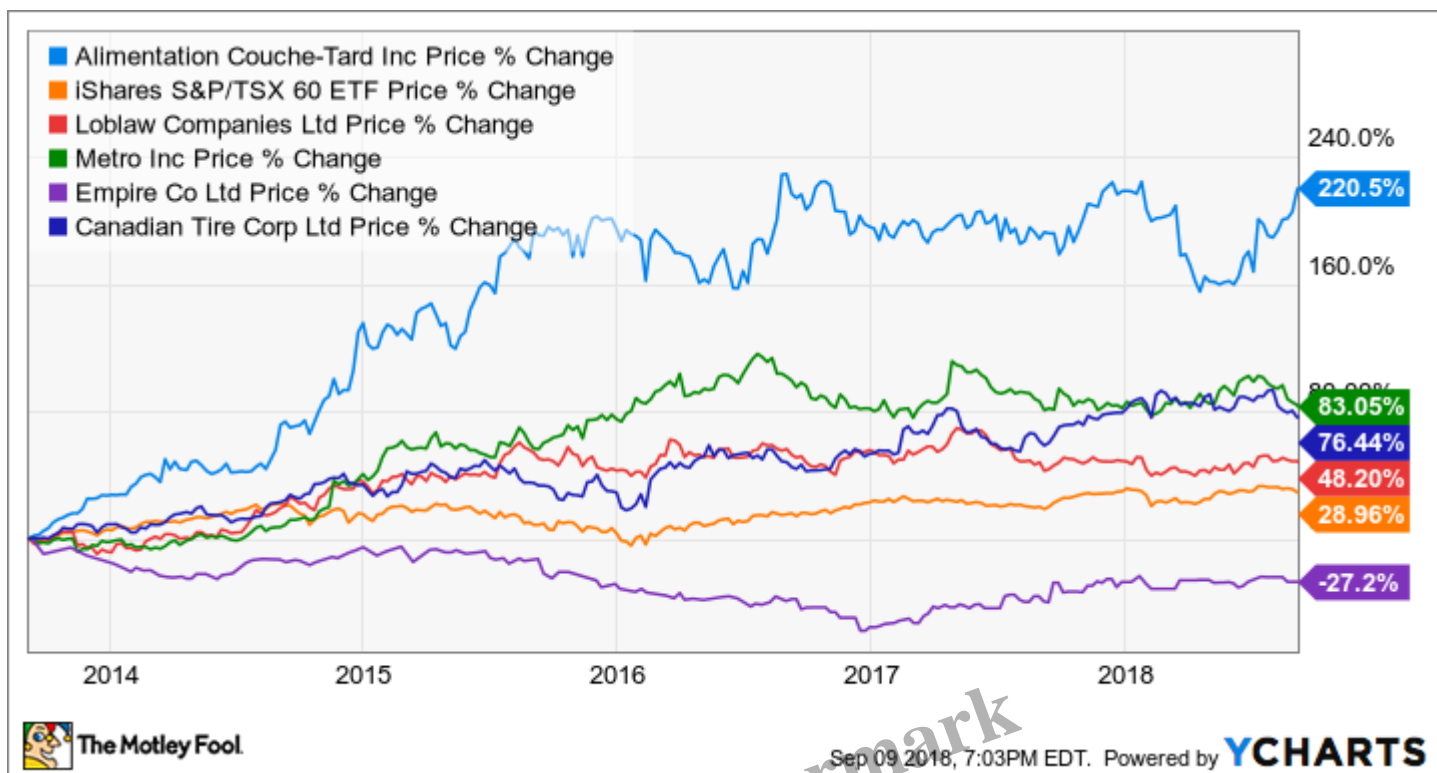
When will Couche-Tard make another big acquisition?

After acquiring CST Brands for about a year, Couche-Tard has accomplished an annual synergy run rate of about US\$189 million for the integration. This is getting close to the estimated full potential of US\$215 million of annual synergies.

As it has in the past, Couche-Tard has focused on using its strong cash flow generation to repay its debt over time after it made acquisitions. It recently reported an adjusted leverage ratio of about 2.86 after acquiring CST Brands and Holiday last year. In the last 15 years or so, the company would make acquisitions when the ratio reached close to two.

You can count on management keeping Couche-Tard's balance sheet strong and reducing its debt levels before it makes another transformative acquisition.

My colleague Joey Frenette had the interesting idea of [Couche-Tard potentially tripling its dividend](#). Though I'd welcome that as a shareholder, I'd rather the company stick to its usual strategy of making acquisitions, reducing its leverage, and delivering high returns on equity, which, altogether, has led to amazing returns for long-term shareholders.



ATD.B data by YCharts – Comparing Couche-Tard's returns from price appreciation to that of the Canadian market (XIU) and other retailers, including Loblaw, Metro, Empire, and Canadian Tire.

Can Couche-Tard break above \$68 per share this time?

In the last few years, Couche-Tard stock has gotten close to \$68 per share a few times, only to bounce back. However, after the three-year sideways action, with earnings catching up and the recent strong performance of the business, it's not a matter of if but when the stock will break above \$68. It can happen over the next six to 12 months.

With analysts calling an earnings-per-share growth of about 15% per year on Couche-Tard for the next three to five years, the stock still [looks cheap](#), trading at about 16.2 times forward earnings at \$66.22 per share at the time of writing.

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