Don't Look Now But Alimentation Couche-Tard Inc. (TSX:ATD.B) Is Back

Description

Alimentation Couche-Tard (TSX:ATD.B) stock is finally beginning to show some signs of life — Couche-Tard stock has a total return of 9.97% over the past three months through November 9 — which great news for long-time investors who haven't seen double-digit annual gains since 2015.

There are many reasons why investors have fled one of the world's largest convenience store operators: cannabis stocks provide much more significant growth potential, there are fewer U.S. acquisition opportunities available, the convenience store industry's struggling to keep up with changing tastes among consumers … the list goes on.

I've been a big fan of Couche-Tard's since first recommending its stock in February 2016. Although it didn't have the kind of year I thought it would, the company's Circle K re-branding, which began in 2017 and is expected to be completed by the end of 2019, will give the convenience store operator unified branding that will save it money and simplify its marketing endeavours.

What makes Couche-Tard so attractive is its ability to grow free cash flow. As of my February 2016 article about the company, it had increased free cash flow by more than 1,800% over eight years. Since then, it's experienced a bit of a leveling off of free cash flow. However, in the trailing 12 months ended July 22, free cash flow was $1.17 billion, the highest level in Couche-Tard's history.

Not bad for a company whose best growth days are supposedly behind it.

A misunderstood company

Fool.ca contributor Joey Frenette recently discussed why Couche-Tard is so misunderstood.

"With an apparent dry-up in long-term momentum and less frequent M&A deals being announced, Couche-Tard definitely seems like a once-promising growth stock that has already transformed into a low-growth stalwart," Frenette wrote November 7.

"This just isn't the case, however, as Couche-Tard's industry is still extremely fragmented, leaving room for what I believe is decades worth of sustained double-digit percentage growth via M&A activities conducted at the international level."

He's so right about Couche-Tard.

Head south of the Rio Grande

In July, I'd suggested that if the company wanted to get its stock unstuck, it should buy Mexican convenience store operator OXXO, which opens a new store every seven hours and is the third-largest retailer in Mexico with more than 16,500 stores.

To get a deal done of that size — it would make Couche-Tard North America's largest convenience-store chain — it would need a whole lot of financing. However, given Couche-Tard's ability to increase free cash flow after acquisitions through cost reductions and revenue growth, a sizable amount of the debt incurred to make the deal would be paid off in 18-24 months.

However, if it chooses to pass on nosebleed prices for North American convenience stores, it's got plenty of options in Asia, Africa, and South America.

As Joey said, there are more than enough possibilities on those three continents alone to keep itself very busy accelerating the company's global growth.

The bottom line on Couche-Tard stock

Not only has Couche-Tard been re-branding the outside signage of its stores, but it's also been improving the products sold inside the front door.

Those changes have resulted in quarterly same-store sales growth that is better than they've been in the last seven years — a sign that the formula it's building across its Circle K network is working.

That's a big reason why its shares are up almost 10% over the past three months at a time when the **S&P/TSX Composite Index** is down more than 6%.

Couche-Tard is back, baby!

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