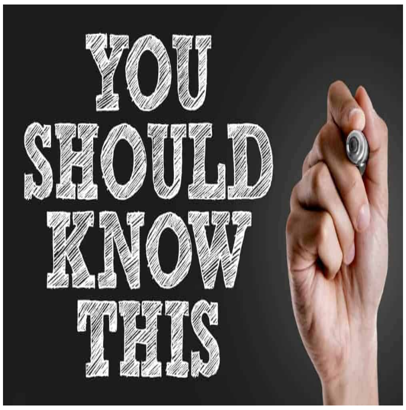

3 Major Reasons Why Alimentation Couche-Tard Inc. (TSX:ATD.B) Could Skyrocket in 2019

Description

Now that **Alimentation Couche-Tard** (TSX:ATD.B) has finally broken through its multi-year ceiling of resistance, I think the stock could be headed for a bull market, regardless of which direction the markets are headed.

First, Couche-Tard's Q2 fiscal 2019 results weren't just good – they were beyond incredible.

We saw continued strength in solid same-store sales growth (SSSG) numbers, which goes to show that the company's investment in organic growth is paying significant dividends. The company saw same-store fuel volumes increase 1.2% in the U.S. with same-store merchandise revenues jumping an impressive 4.4%.

Second, Couche-Tard's management team hasn't lost its touch as many investors may have believed over the past few years. They're still capable of substantial double-digit ROE numbers (ROEs have surged to 24.6% TTM, the highest it's been in a decade).

The recent M&A slowdown following the massive CST Brands and Holiday acquisitions, I believe, was merely an opportunity for Couche-Tard to do some "spring cleaning" by driving organic growth and further integrating its expansive global network to improve efficiencies following its many years of fast-and-furious M&A activities that catapulted the stock into the stratosphere.

Couche-Tard's "spring cleaning," I believe, isn't as sexy as the dissemination of new acquisitions on a regular basis. As the proof (enhanced earnings) continue to shown that it's in the pudding through the release of improved quarterly numbers, however, I do think that investors will begin to realize that the company still has its foot on the growth pedal, only in a different way than we've grown accustomed to over the last decade.

Couche-Tard has been growing organically, not inorganically, and once its "spring cleaning" phase is over, the company's debt levels will be depressed by an amount such that the company will be back to its fast-and-furious M&A ways. And as it resumes pulling the trigger on deals, it'll be doing so while its other chains are operating at a very high level.

Third, as fellow Fool contributor Kay Ng alluded to in a previous piece, Couche-Tard typically resumes its M&A activities after its debt has fallen to a level that'd better allow it to:

"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," said Kay.

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

Today, Couche-Tard's financial leverage has fallen to 2.9 from around 3.1, and while there probably isn't room to digest another massive acquisition to the scale of a CST Brands, I wouldn't at all be surprised to see Couche-Tard conducting smaller-scale acquisitions in higher-ROE markets like Southeast Asia.

The Foolish takeaway on Couche-Tard

Couche-Tard is a conviction buy right here. The night owl's finally beginning to spread its wings after years of hibernation. You'll want to own the stock now that the "spring cleaning" is mostly done. I suspect double-digit EPS growth numbers will be sustained through the next year as the impressive earnings results come flowing in. Add potential new M&A announcements into the equation, and you've got the formula for a surging stock.

Even after Couche-Tard's impressive run, the stock is still undervalued based on nearly every traditional valuation metric. The stock trades at a 16.4 forward P/E, a 3.6 P/B, a 0.5 P/S, and a 11.9 P/CF, all of which are considerably lower than the company's five-year historical average multiples of 21.9, 4.6, 0.6, and 14.3, respectively.

You're getting impressive growth at a discount here, and given the technical breakout in shares, I wouldn't hesitate to back up the truck here. This breakout was a long time coming, and as impatient investors flock back into the growth name, we could see the price of admission go up sharply.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/07/03
Date Created
2018/12/01
Author
joefrenette