A Top Stock for 2019

Description

Alimentation Couche-Tard Inc.'s (TSX:ATD.B) stock is one of the few stocks on the TSX Index that are hitting all-time highs.

A reflection of the stellar results that the company has been posting, for sure, but also a reflection of changing investor sentiment.

A change that has meant that stable, predictable, defensive stocks have been in high demand.

A look at the company's recent results, its outlook going forward, and its valuation, all point us to the same conclusion.

Alimentation Couche-Tard is a safe bet for 2019.

Admittedly, I am not one to necessarily enjoy buying stocks when they are trading at all-time highs.

But my investment thesis is predicated on the fact that this stock will be a steady performer that gives investors a small dividend, a predictable revenue stream, ample cash flows, and top notch profitability.

And downside protection as well as upside potential.

With a global network of 10,000 stores globally, the company has a history of profitably growing, both organically and through acquisitions.

The company's debt load rose recently as a result of the company's continued aggressive acquisition strategy, which has seen three transformative acquisitions in the last three years, with the $1.7 billion acquisition of 279 Esso brand gas stations being one of the latest.

Strong cash flows is one of the key characteristics of the company's business model, as demonstrated by the company's free cash flow generation (excluding acquisitions) of almost $3 billion in the last three years, its 8.6% five-year compound annual growth rate in operating cash flow, and a respectable free cash flow margin of over 2%.

So although the debt to total capitalization ratio remains high, it's coming down and now stands at 48% (versus 54% earlier this year), and the company's strong cash flow generation can easily support this.

The latest quarter, the second quarter of fiscal 2019, shows continued strength in same-store sales and traffic, continued margin improvements, and continued strong cash flow generation.

Same-store merchandise sales increased 4.4% in the U.S., 4.6% in Europe, and 5.1% in Canada.

EBITDA margins are expected to ramp up as the company continues to achieve the expectedsynergies related to its CST acquisition.

As at October 14, 2018, the annual synergies run rate was $200 million, which will flow through to expenses and margins in future quarters. The total synergy target of $215 million is but breaths away and will be accomplished.

Return on equity was a stellar 24% and return on capital was an impressive 12.1%.

Going forward, we can expect continued synergies from the company's recent acquisitions, as well as deleveraging of the balance sheet, and continued growth both organically and via acquisitions, with the company's target being to double the company once again.

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