This Proven Growth Stock Looks Like It's Breaking Out

Description

After having traded in a sideways range for several years since mid-2015, **Alimentation Couche-Tard** (TSX:ATD.B) stock finally looks like it's breaking out. Previously, it traded in the $52-68 range; the growth stock has made a new all-time high, which is very positive for the stock.

Couche-Tard is still good value

More important, despite having appreciated more than 30% from its low in May, the stock's valuation is still very reasonable. At $69.73 per share as of writing, Couche-Tard trades at a blended price-to-earnings ratio of about 17.5, while it's estimated to grow its earnings per share by about 13-15% per year on average for the next three to five years. This implies a PEG ratio of, at worst, 1.34, which is reasonable for a proven growth stock.

A proven growth stock

In the past five years, Couche-Tard experienced sustainable top-line growth with its merchandise and service sales and road transportation fuel volume increasing at compound annual growth rates of more than 11% and 16%, respectively. The organic growth was thanks to a number of factors that fed into each other, including being customer focused and being innovative in its offerings.

Top line growth leading to cash flow growth is an ingredient for success. Indeed, in the past five years, Couche-Tard's earnings before interest, taxes, depreciation, and amortization and free cash flow increased at compound annual growth rates of more than 16% and almost 15%, respectively.

In the period, Couche-Tard increased its adjusted diluted earnings per share and dividends paid at compound annual growth rates of more than 19% and 24%, respectively.

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In fiscal 2018, Couche-Tard generated more than $1.2 billion of free cash flow, which means cash flow that was left over after reinvesting 36% back into the business, paying about 6% as dividends, paying about 9% as income taxes, and paying about 7% as interests.

All the prudent execution that led to top- and bottom-line growth resulted in the growth stock's outperformance in the last five years, delivering total returns of more than 22% per year on average, while the U.S. market returned less than 13% per year.

Investor takeaway

Couche-Tard still trades at a meaningful discount to its convenience-store peers. Given its growth potential from organic growth and acquisitions, the stock remains an excellent buy for conservative investors looking for a blue-chip idea in the consumer defensive space.

Bank of Nova Scotia has a one-year target of $82 per share on Couche-Tard, which represents near-term upside potential of more than 17%.

At the end of fiscal Q2, Couche-Tard had a leverage ratio of about 2.8. Once it reduces that to close to two, investors can expect the company to make another transformative acquisition.

Interested investors can buy some shares now and certainly look into adding to the proven growth stock if it falls back to the low $60s level.

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Date
2025/08/03
Date Created
2018/12/04
Author
kayng