



The Ultimate Value Stock for 2019

Description

Many long-term investors are big on value investing. By buying stocks at prices that are low compared to intrinsic value, the theory goes, you can capture a good return when the market later realizes those stocks are undervalued. For this reason, a lot of investors equate value investing with buying stocks at low price-to-earnings (P/E) or price-to-book ratios. But the truth is, there's much more to it than that.

Famed value investor Warren Buffett prioritizes metrics like free cash flow and return on equity (ROE) ahead of the P/E ratio, and with good reason. If a stock is really a piece of a business, then its future cash flow is its true value; a low P/E ratio may be entirely justified if earnings are trending down.

Enter **Alimentation Couche-Tard** (TSX:ATD.B). It's a classic example of a stock that isn't dirt cheap at first glance, but offers a tonne of value on closer inspection. Fool contributor Joey Frenette has already pointed out that Alimentation has strong growth prospects, despite the market [punishing it](#) after weak earnings last year. Accordingly, its price is low relative to the business's merits. To understand why that is, we need to look at the company's financial performance.

Financials

Alimentation is a convenience store operator with great financials. The company had a 24% ROE in its most recent quarter and a 12.1% return on capital employed. Both of these figures are above average. ROE is a metric favoured by celebrated value investor Warren Buffett, so that 24% figure is one that value investors should take note of.

Alimentation has about \$7.3 billion in debt; however, that figure is far outstripped by the company's \$21 billion in assets, which leaves roughly \$8.2 billion in shareholder equity.

Solid growth

In its most recent quarter, Alimentation delivered [strong growth](#). Total revenues came in at \$14 billion, which is 21% higher than they had been in the same quarter a year before. Net earnings per share

also grew: they came in at \$0.84 compared to \$0.76 a year earlier, which represents a 10.5% growth rate. These figures aren't the headiest you'll find among TSX-listed stocks, but they're better than average for a convenience store operator. More importantly, when viewed alongside this company's stellar ROE, they point to an enterprise that can generate strong and growing value for shareholders.

Dividend income

A final point to mention about Alimentation is that it pays a dividend. With a yield of 0.59%, it's not the highest on the TSX, but the payout has more than doubled since early 2015. Should that kind of growth continue, Alimentation stock purchased today could generate strong income down the line. That combined with the fact that Alimentation delivers excellent profitability metrics and steady growth at not too steep a price makes it one of the strongest value picks on the TSX.

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