Get Ready to Buy This Top TSX Stock on Weakness

Description

After spending a couple of years in the wilderness, **Alimentation Couche-Tard** (TSX:ATD.B) stock is back, providing a big boost to the TSX over the past year.

Up 16.6% year to date, including dividends, through April 22 and 50.4% over the past 52 weeks, ATD.B stock has contributed the third-largest amount of points to the **S&P/TSX Composite Index** over past 11 months.

Trading within 3.6% of a 52-week and all-time high, Couche-Tard shareholders have been rewarded for their patience.

The question now is whether the momentum it's been on the past year can last.

The headwinds it faces

If you follow Couche-Tard closely, you know it does a good job negotiating supply agreements with gasoline producers, which leads to industry-leading margins at the pumps. In the third quarter of 2019, Couche-Tard generated almost $0.30 of margin on a gallon of gas — double what it made in the same quarter a year earlier.

It's profitability like this that enabled it to raise its quarterly dividend by 25% in Q3 2019 while announcing a share-repurchase plan to buy back 17 million of its shares. It's become a free cash flow machine.

However, the party for gas margins looks like it's coming to an end. Oil prices are moving higher prompting RBC Dominion Securities analyst Irene Nattel to suggest Couche-Tard's fourth-quarter gas margins could drop back to the $0.15 range, where they were in fiscal 2018.

Add to this a U.S. economy that's on the last legs of an impressively long economic cycle, and you've got the makings of a double whammy: lower gas volumes and lower margins on those gas sales.

That's likely to put ATD.B stock into a stall, if not a full-on retreat.

The potential catalysts

In the previous section, I mentioned that Couche-Tard has become a free cash flow machine.

In the first nine months of fiscal 2019, Couche-Tard generated US$1.54 billion in free cash flow. Assuming it doesn't add any free cash flow in the fourth quarter due to lower gas margins, it will finish the year with record free cash flow that it can use to repay debt, pay its increased dividend, and buy back its shares.

As my Foolish colleague Joey Frenette said in February, "As debt levels shrink, look for more synergy-driving deals to be announced."

The company's DNA is making acquisitions, integrating those acquisitions efficiently, and then turning up the cash flow to enable it to make more acquisitions.

In January, I highlighted the company's four pillars of value: organic growth, acquisitions, cost discipline, and financial discipline. Focusing on all four of these pillars, Couche-Tard has been able to deliver incredible long-term shareholder returns

With Couche-Tard pretty much finished digesting the CST Brands acquisition, you can expect it to announce another significant acquisition (likely in Asia) in 2019 or 2020 at the latest.

That alone will drive ATD.B stock $10-20 higher over the long haul.

What to do about it?

If you own Couche-Tard stock, I don't think there's any question you continue to hold its stock despite the run-up in the past year.

If you don't own Couche-Tard stock, I'd probably wait until it announces Q4 2019 results in July before buying. If margins drop considerably, as predicted, there's a good chance the news will send its stock lower. If for some reason it doesn't happen, and the stock moves higher after the report, I'd buy at that point and enjoy the bigger dividend for the next five to 10 years.

I've always believed Couche-Tard was one of the best stocks on the TSX. Its performance over the past year has confirmed my opinion. Moving forward, I don't see that changing.

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