This Consumer Staple Growth Stock Soared 58% Over the Last Year: Here's Why it's Headed Even Higher

Description

Alimentation Couche-Tard (TSX:ATD.B) has been roaring lately with shares now up nearly 60% over the past year. The white-hot growth stock is showing no signs of slowing down, and since recent market-wide fears have had a negligible impact on the upward trajectory of shares, I think there are still plenty of reasons for growth-savvy investors to consider the name as it continues soaring to new all-time highs.

A hot stock that keeps getting hotter

While I'm not a big fan of chasing hot stocks based solely on momentum, there are plenty of catalysts that could keep shares (and earnings) moving higher through the end of the year. Even after the incredible run, Couche-Tard stock still isn't what you'd consider a ridiculously expensive stock, especially when you consider the high magnitude of predictable, low-beta growth that you're getting.

With plenty of forward-looking growth left in the tank, I think Couche-Tard is a stock that warrants a much higher multiple than 25 times trailing earnings. Unlike most other sexy growth stocks, Couche-Tard has the earnings to back itself up and once management pulls the trigger on its next big deal, the stock could rip past the $100 mark, because investors know that every deal creates tremendous value for long-term shareholders.

The seasoned management team is all about driving synergies through the roof, and if a potential deal doesn't provide high synergies relative to the integration risks being taken on, CEO Brian Hannasch and company aren't afraid to walk away, as there are a tonne of other potential takeover targets in the highly fragmented global convenience store scene.

Looking for value in the land down under?

Couche-Tard's debt levels have been chipped away at over the past year, and with the debt-to-equity ratio now down to 0.69 as of the latest quarter, the company has more financial flexibility and could be ready to make another big deal (or series of smaller deals).

Recent rumours in the Australian media noted that Australia-based fuel supplier and convenience store chain Caltex might be up for sale.

Seeing as Couche-Tard has previously expressed interest in expanding its footprint in the Asian Pacific markets, I find it likely that Couche-Tard could be a top candidate to scoop up all (or a good portion) of Caltex's retail locations. In addition, there have been reports that Couche-Tard's management team has been seen in Australia, likely on their way to discuss a potential deal with Caltex.

Caltex has struggled with lower fuel margins and poor profitability numbers of late. Seeing as there's a bit of baggage, a Caltex deal probably wouldn't come with a hefty price tag. TD Securities analysts Michael Van Aelst and Evan Frantzeskos speculate that if a deal were to be made for Caltex's retail segment, that the price could be around eight times sustainable EBITDA.

That's a pretty good price for Couche-Tard, and with exceptional stewards running the show, such a Caltex deal could not only provide ample synergy opportunities but a solid foundation for an expansion in the land down under.

Foolish takeaway

Couche-Tard is hot, and it's going to get even hotter once management becomes hungry for its next big acquisition. With nearly 800 convenience stores under the Caltex banner, Couche-Tard may have found its next match and should a deal be inked; I suspect Couche-Tard shares could be on a sustained rally to $100.

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