



Alimentation Couche-Tard Inc. (TSX:ATD.B) to Double Net Income in 5 Years: Should You Double-Down?

Description

Global convenience store giant **Alimentation Couche-Tard** (TSX:ATD.B) soared 2.5% the day after it pulled the curtain on its weak Q4 fiscal 2019 numbers (adjusted profits of \$0.52 per share missed the consensus expectation of \$0.54).

Although the quarter itself was unimpressive thanks to upped operating expenses, unfavourable currency fluctuations, and weak fuel sales, investors were able to see through the seemingly temporary headwinds in the ensuing trading session, as they listened to CEO Brian Hannasch's positive commentary in a Wednesday morning web call.

Hannasch commented on Couche-Tard's long-term strategic plan of doubling net profit in five years, which is a remarkable magnitude of growth for a company that nearly sports a \$50 billion market cap. While the five-year goal was definitely "ambitious" for a company of Couche-Tard's size, it's not far-fetched when you consider that management has found the perfect balance of organic and inorganic growth.

Keith Howlett, an analyst at Desjardins Capital Markets, noted that doubling profitability depends on the company's abilities to "sustain organic sales momentum and expanded gross margins."

"Gross margin expansion will likely require a shift in product mix to food service," wrote Howlett in a research note.

Given the investments in growth initiatives and the fact that the company has found a spot with its customers through new food offerings, I'd say that Couche-Tard's same-store sales growth (SSSG) momentum may very well just be starting. If anybody can sustain sales momentum and high margins, it's Couche-Tard's management team, which has proven that it can drive comps just as well as it can unlock ample synergies through acquisitions.

For Q4, same-store sales growth numbers were positive across the board — a trend I expect will continue as the company continues along with its comps driving initiatives. The Circle K rebranding

upped national promotions, and new in-store offerings look to be a boon the medium-term comps.

In the meantime, debt levels appear to have fallen (0.69 debt-to-equity) to a level that would allow for another big acquisition (or series of smaller acquisitions), potentially in a higher-ROE Asian market.

Foolish takeaway

Couche-Tard has an ambitious five-year plan, and although some pundits may question whether or not it's realistic, given the capabilities of management, I actually think the company could exceed the bar that it's set for itself.

Forgive the Q4 headwinds (unfavourable currency moves, poor weather conditions, high fuel prices, etc.) as investors have in the trading session that followed earnings, and there may be [tremendous long-term rewards](#). The stock isn't cheap at nearly 20 times forward earnings, but in [a market that values growth](#), I'd say that the price of admission is reasonable at \$85 and change if you're going to stick around for the next five years.

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Author

joefrenette

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