Couche-Tard (TSX:ATD.B) Disappoints in Q4 as Sales and Profits Decline

Description

Alimentation Couche-Tard (TSX:ATD.B) released its fourth-quarter results this week, and not only were sales down from a year ago, but profits declined by 25%. The company fell short of earnings estimates, coming in at an adjusted $0.52 per share versus the $0.54 that was expected. However, let's take a closer look at Couche-Tard's results to see why the company had such disappointing numbers.

Declining fuel revenue weighs down the top line

The key reason for the drop in sales this past quarter comes as a result of the company's road transportation segment seeing declines in all major markets. In Canada, sales dropped by 10%, Europe was down 4.3%, and the U.S., which has the bulk of the revenue mix, also declined by 3% from last year. Couche-Tard generated just over $10 billion in sales last quarter due to its fuel revenues, and this year that number came in at around $430 million lower than that. The company blamed a one-time sale of inventory in Sweden and foreign exchange as the main reasons for the lower revenue number.

The company's other main segment, merchandise and service, just didn't do enough to offset those declines. Although sales were up 2.4% in that segment, that resulted in only an additional $78 million being added to the top line. Same-store merchandise sales actually showed good growth from a year ago, rising by 4.7% in Europe followed by 4.2% in Canada and 3.4% in the U.S.

Prior-year profits benefit from tax bill

The 25% decline in profits is a bit misleading, as part of the reason that there is such a big drop off from a year ago is due to taxes. Last year, the company benefitted from the U.S. Tax Cuts and Jobs Act, which resulted in a benefit of $69.7 million for Couche-Tard.

After adjusting for all the foreign exchange impacts and non-recurring items including the tax impact, Couche-Tard's drop off in profitability would have been closer to 12%, as adjusted EPS of $0.59 last year would have been a lot closer than the $0.69 that was recorded on the company's financials. It's still a drop-off but not nearly as significant as it looks to be at first glance.

The good news for investors is that the company announced that the synergies it was hoping to achieve with CST Brands of $215 million annually are ahead of schedule, which should help result in stronger performances in future quarters.

Should investors consider buying the stock?

Unfortunately, there wasn't anything to warrant any excitement in the stock given these results. Declining sales, for whatever reason, usually keep investors away. With the stock trading at around 25 times its earnings and more than five times its book value, investors will be paying a big premium to own the stock today. And although it has generated returns of more than 35% heading into earnings, I wouldn't expect that strong performance to continue.

There's still a lot of growth potential left for Couche-Tard, and if the company rebounds with a strong summer quarter, then it could still rise in value, but at this time there are simply better buys that investors can choose from.

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