



Why Couche-Tard (TSX:ATD.B) Could Be the TSX Index's Biggest Winner in the 2nd Half of 2019

Description

Alimentation Couche-Tard (TSX:ATD.B) recently clocked in a slight Q4 FY 2019 earnings miss primarily due to temporary headwinds (unfavourable currency moves, poor weather, and fuel shortages in select regions, a rise in operating expenses, decreased demand for fuel, and the list goes on). Despite the miss, sentiment took a 180-degree turn when management shed light on its plan to [double profitability](#) in five years.

Yes, Couche-Tard is a big company, but it can and likely will meet its targets given management's incredible track record of exceeding expectations of both investors and insiders.

Of course, there are exogenous factors that could derail the company's "ambitious" long-term goal, such as a severe global recession happening within the next five years, but assuming the bull keeps roaring, I think Couche-Tard will have little problem meeting its goal ahead of time given the company has been firing on all cylinders, both organically (driving comps) and inorganically (driving synergies through accretive acquisitions).

Although sentiment turned positive in the day after Couche-Tard lifted the curtain on its mediocre quarter (which had remarkably strong comps), TD Securities slapped the stock with a downgrade to "hold" just days after the Q4 release, after having the opportunity to digest the results.

TD Securities is concerned with how frothy the valuation has become after its incredible rally, and while the stock does trade at the frothiest multiple it has in recent memory (26.2 times trailing earnings), I think the downgrade was unwarranted and that the stock has way more room to run, likely to \$100 by year-end.

Yes, the valuation is a tad extended, but as David Gardner has always suggested, investors shouldn't be afraid of seemingly expensive stocks that trade at or around their all-time highs.

David's "Rule Breaker" approach to investing may scare some of the more value conscious of us, but when it comes to quality [high-growth](#) names like Couche-Tard, I firmly believe it's more than "okay" to

break the rules when it comes to name given any meaningful improvements made at the company-specific level.

My view?

Fundamental improvements warrant the multiple expansion in Couche-Tard shares.

I always thought Couche-Tard was worth around 30 times trailing earnings given the exceptional management team and the lower-risk growth profile. Now that the company is “killing it” on the comps front, I’m more confident in the name, as it pursues its next round of acquisitions.

Back in the day, when Couche-Tard pulled the trigger more frequently, the M&A announcements acted as fuel for the stock. Now that debt has fallen to reasonable levels, Couche-Tard has the ability to go on the hunt for its next takeover. The recent fuel for Couche-Tard’s stock has been about comps, and the next leg, I believe, will be about announced acquisitions and the potential for further synergies.

Yes, the stock isn’t “cheap” here on a historical valuation basis, but when you consider the potential for further multiple expansion and the likelihood of coming acquisitions (a catalyst for the stock), I’d say it’s a mistake to count Couche-Tard out just because the stock has a higher-than-historical-average P/E multiple.

Although it’d be nice to pick up shares on a pullback, it’s important to remember that it may not happen given the stock’s lower correlation to the broader markets. So, I have no problem encouraging investors to get some skin in the game today in spite of any recent analyst downgrades that cite valuation as the primary reason for concern.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing
2. Stocks for Beginners
3. Top TSX Stocks

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Stocks for Beginners
3. Top TSX Stocks

Date

2025/08/21

Date Created

2019/07/15

Author
joefrenette

default watermark

default watermark