



## Three Reasons Why This Stock Is Ready to Soar in 2020 and Beyond

### Description

There has been a great deal of chatter about a global market downturn and the continuing trade tensions are not helping. The global economy has been on a tear the last decade, so it's inevitable that we'll face "music" of a slowdown at some point.

In the face of an inevitable downturn, investors need to look at defensive stocks that still have characteristics of growth, which limits that list to only a [handful of rare investment gems](#).

One of those gems worth a hard look is **Alimentation Couche-Tard** (TSX:ATD.B), one of the world's premier destinations for convenience products and fuel. My view is that Couche-Tard has the right strategy and business model for turbulent times, allowing it to potentially double its stock price in the next five years.

### A simple message and business model

Convenience products and fuel. Two simple core offerings and a relentless focus on customer service. In hard times, investors need to look for companies that have ultra-simple business models.

Couche-Tard's simple model has served it really well. The relentless focus on its customers has resulted in record net earnings of \$1.8 billion, with a total revenue of \$59.1 billion, the most of any Canadian company.

This record revenue and earnings were largely made possible by acquisitions. However, the company is focusing on a good balance between organic and inorganic growth going forward.

This balance is excellent news for shareholders because organic growth is typically cheaper than inorganic or growth by acquisition. Growth by acquisition involves lawyers, accountants, advisors, bankers, consultants, and expensive due diligence activities, not to mention top-shelf prices in an environment where capital is cheap.

By contrast, organic growth simply means optimizing existing businesses and "sweating the assets" a

bit more to drive efficiencies and synergies. Organic growth also means a continued focus on evolving customer needs and meeting those needs in the best way possible.

A good example is the company's pilot project in the southeast U.S. around high-quality "baked on-premises" pastries, which has resulted in higher sales of baked goods.

## Significant potential for disruption in the Asia-Pacific region

Couche-Tard has a tiny footprint in Asia: 1,300 stores at the end of April 2019, its fiscal year-end, relative to the 15,000 sites in North America and Europe. This lack of Asian scale is not a huge surprise, as it just spent the last few years growing like crazy in the U.S. and Europe.

The company simply didn't have the ability to focus on Asia in a meaningful way, but there's a brand new frontier to drive significant growth over the next five years.

After all, company could absolutely double its stock price in the next five years as it builds out its Asian footprint.

## Free cash flow doesn't lie!

Readers may be aware that I adore [companies that grow their cash flow](#) and provide investors with transparency around this.

Couche-Tard is a slam dunk investment based on this criteria, as it definitely publishes cash metrics and has successfully grown its FCF from \$383 million in 2011 to \$3,583 million in 2019. That growth amounts to a monster 32% annual cash flow growth over the last eight years.

I can't think of many companies with this much growth in cash; this is an extremely positive signal given that the company can fund a good portion of its capital expenditure through self-generated means as opposed to taking on more debt.

## The final verdict

Couche-Tard's stock price has been stuck in the \$40 to \$42 zone for the last six months, adjusted for the recent stock-split. This is fairly normal for a stock that is "taking a breather" after doubling over the last five years.

Couche-Tard is stronger than it's ever been, and there's no reason why the company can't double again in the next five years, even amid a market downturn.

Remember, people need to still drive to work and to visit family for Thanksgiving and Christmas, even in market downturns. Smart investors will continue to focus on the big picture and look to get into Couche-Tard at a price level of around \$40 or even lower.

### CATEGORY

1. Investing

## **PARTNER-FEEDS**

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

### **Category**

1. Investing

### **Date**

2025/07/02

### **Date Created**

2019/10/09

### **Author**

rahimbhayani

default watermark

default watermark