



WARNING: A Recession Could Tank This Otherwise Great Stock!

Description

Are you worried about a looming recession?

Depending on what's in your portfolio, your fears may or may not be well-founded.

It's true that most financial and economic experts are forecasting a recession within the next two years. It's also true that most stocks fall during recessions, as declining consumer spending eats into earnings.

However, not all stocks are created equal. Certain industries, such as utilities and discount retail, hold their own better than others during economic downturns. On the flip side, there are also stocks that perform brilliantly during good times but, for structural reasons, fall more than others during recessions.

For Canadian investors, there is one stock in particular that has done well historically, but may be at risk in a coming recession. It's a stock that has risen dramatically over the years, as the underlying company has taken over a greater and greater share of the U.S. convenience store market.

A rare company that has acquired a [nearly market-leading position south of the border](#), but one that could face serious setbacks if the economy takes a downturn.

Alimentation Couche-Tard

Alimentation Couche-Tard (TSX:ATD.B) is a convenience store company best known for its Circle K franchise.

Circle K is a rapidly growing gas station/convenience store chain that has quickly become dominant in Canada. Over the past 10 years, the chain has swept across the country, converting many existing gas stations to its own brand. Even in the U.S., the company has acquired a large market share—6.4% according to CSP Daily News.

Why it's so vulnerable to a recession

Alimentation Couche-Tard is vulnerable to a recession for one main reason:

It's [heavily involved in selling fuel](#).

Although convenience stores are in some ways poised to benefit from recessions, as vendors of “vice” products (beer, tobacco, lottery tickets) that sell well during downturns, Circle K locations double as gas stations. In 2018, transportation fuel sales contributed \$37 billion of Alimentation's total \$51 billion in revenue.

It also contributed \$3.3 billion out of \$8 billion in gross profit.

Why is this a problem?

Gasoline sales tend to fall during recessions. Although not quite as responsive to recessions as steel or aluminum, gas sales and prices do see weakness when the economy slows. In the U.S., the price of gasoline fell from \$4.11 to \$1.62 per gallon during 2008, the first year of the global recession.

Sales volume also declined that year, which make sense. During recessions, people cut out unnecessary expenses, and excess driving would be among those. Jet fuel is typically hit particularly hard, as people cut out foreign vacations—although that's somewhat moot for our present purposes.

Foolish takeaway

Alimentation Couche-Tard is a great company that has delivered considerable value to shareholders over the years. If you'd invested just \$10,000 in the stock five years ago, you'd have \$20,000 today—not counting dividends. That's impressive growth.

However, this company heavily depends on fuel sales, which makes it somewhat vulnerable to a recession. On the other hand, its provision of vice goods like alcohol and cigarettes may counteract any decline in fuel sales and drive growth, so this will be an interesting one to watch.

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