TFSA 101: Double Your Money With This Amazingly Cheap Dividend All-Star Stock

Description

When people think of **Alimentation Couche-Tard** (TSX:ATD.B), they rarely think of it as a dividend all-star. The company is seen more as a growth story, and one that may actually run out of steam in the short run. I am here to tell you that none of these things are true. Couche-Tard is a high-growth, high-dividend, high-quality stock that belongs in every long-term portfolio, and I am going to give you several reasons why.

First, Couche-Tard doesn't get enough credit for being one of the best strategy executors in North America. Any company can have a great strategy on paper, but it's something else to grow at the tremendous year-over-year double-digit growth rates over the last decade. The company has gone from a humble Quebec-based convenience store business to almost 20,000 stores worldwide.

The company's growth model was not without its risk; namely, taking on massive amounts of debt to acquire new gas stations globally while ensuring that the return on capital exceeds the cost of that capital at all times to ensure profitable growth. What's most impressive about the business model is that not only has it ensured a high return on capital, but it has done so while continuing to increase dividends and pay down debt.

So, why am I calling this a dividend stock when its current yield is a paltry 0.6%? And why am I calling the stock cheap when it has doubled over the last five years?

More business opportunities today than ever before

About seven years ago, as the company was making big inroads into the U.S. and Europe, most people outside Canada weren't terribly familiar with the Couche-Tard brand, and some didn't take it seriously because it was a relatively unknown player — although certainly a sizeable one, even then.

But it didn't have the brand recognition, and it didn't have an identity that it could translate outside Canada. This is when the company developed the Circle K brand, and that was one of the best things it could have done to fuel long-term growth.

The Circle K brand now has a feeling to it — that feeling is a nice, clean, well-lit service station with gas pumps that never run out of fuel and are fast and efficient. The service station always has a very clean and well-stocked convenience store with plenty of hot and cold beverage and food options.

When Couche-Tard goes to an investment bank to tap a cheap line of credit to purchase a hundred gas stations in Asia, the bankers know the Circle K brand and understand the value the company can create.

When a strategic seller wants to sell their gas station assets, they go to Couche-Tard as the buyer of choice, which means Couche-Tard is getting the "first draft pick" and can select the best of the best locations and most strategic assets, while discarding the ones that don't make sense.

The dividend yield is small but will grow fast

Dividend investors get turned off by the paltry 0.6% yield, but this is where knowing a bit of compounding math really pays off. The company's dividend-per-share growth rate from 2011 to 2019 has been an insane 28%. The company reliably hiked the dividend a further 25% in this last quarter for a full $0.50 per share annually going forward, which equates to a forward dividend yield of 1%.

If it continues to raise the dividend by even 20% annually, which would be paltry by its standards, the dividend yield in five years, assuming the stock price stays at $40, will be $1.25 per share annually, or 3.1% in terms of dividend yield. At that point, all the dividend investors will collectively wake up and dive into this stock head first. But smart investors have an opportunity to get in before the masses do.

Be patient and watch the stock, because it is bound to pull back to the $38-$39 level soon enough, given too much irrational exuberance has been built into the stock market in the last few weeks. Pounce at that point to build a very secure and fast-growing retirement nest egg.

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