

# Why Alimentation Couche-Tard May Be the Top Performing Stock in 2020

## Description

**Alimentation Couche-Tard** (TSX:ATD.B) has been one of the top performers this year, with its stock up roughly 30% year to date. There are two main reasons for the share appreciation.

First off, investors have been flocking to stocks like Couche-Tard, that operate in defensive industries such as the convenience and fuel segments.

At this point in the market cycle, it's important to expose your portfolio to as much defensive income as you can, even if it's through a [growth-oriented](#) stock such as Couche-Tard.

The other reason has to do with the impressive operations the company has, and the work it has been doing more recently to strengthen its position in the industry.

Investors are confident in Couche-Tard's ability to achieve its growth targets, which has also had a positive impact on the share price.

The company reported its fiscal 2020 second quarter earnings this past week and as usual the numbers were strong.

## Brand consolidation

The company's main priority, to consolidate all its operations under a few select brands, has been working well already and will be key for Couche-Tard to use its dominant market position to grow organically.

It is the convenience [industry leader](#) in Canada and the U.S., with operations in all 10 provinces and all of the lower 48 states. It's also one of the biggest operators in Europe, specifically the Scandinavian and Baltic countries, where it also leads the market in transportation fuel retail stores.

As of October 2019, it has more than 9,800 stores in North America, with roughly 8,600 of those also being gas stations.

It also has more than 2,700 stores in the European countries, with the majority of locations offering convenience and fuel services.

Through licensing agreements, it also has more than 2,250 stores that operate in 16 other countries under its Circle K banner.

## Growth plans

Couche-Tard knows that the industry it operates in has been going through a major transformation,

and realises the significance of the consolidation in the sector.

In the U.S., it has been making strategic acquisitions to grow its market share, while strengthening its position and crowding out other smaller players that can't match its scale, which also helps to increase its market share.

In Canada, a significant portion of the market is owned by integrated energy companies, some of which have expressed interest in selling their retail units, such as **Husky Energy**.

What's reassuring about Couche-Tard is that it has the right idea when it comes to acquisitions; they are important for the growth of the company, but not at the expense of profitability and not if it has to overpay to acquire the assets.

Couche-Tard is committed to making acquisitions and growing the business only if the price is right and the assets it's purchasing make sense given its current portfolio.

Although acquisitions are key to its business, Couche-Tard knows that organic growth is just as important, which it can increase as it strengthens its operations which it's doing by making all these acquisitions.

## Setting all-time highs

So far, these plans have clearly been paying off. In the second quarter of fiscal 2020, it reported net earnings of more than \$575 million, compared to roughly \$475 million in the same quarter the year prior.

On a per share basis, it reported \$0.51 of earnings, versus last year's \$0.42, a more than 20% increase.

It's no wonder that Couche-Tard's five-year average for return on equity is more than 23.5% and why its stock continues to set new all-time highs.

Even at these all-time highs, its price to earnings is just 18.7 times, which is under its five-year average, suggesting some more upside potential in the stock at today's metrics.

In addition, as it continues to improve its operations and grow its earnings, look for the shares to continue to outperform the market, which will set it up to be one of the top performing stocks in 2020.

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