



Alimentation Couche-Tard (TSX:ATD:B): The Profit in Convenience

Description

Alimentation Couche-Tard (TSX:ATD:B) is headquartered in Laval, Québec, and operates convenience stores throughout North America, Europe, Asia, and Russia. The company pays a \$0.063 dividend and has a five-year total return of 116.22%. The company's market capitalization is \$48.86 billion.

Alimentation Couche-Tard recently announced a \$7.7 billion bid for Caltex Australia. On the surface, the deal looks promising, and the company's stock reached an all-time high of \$44.50 on November 28.

Concerns

One of my concerns of is the company's high debt-to-equity ratio. In the last five years, the company's debt-to-equity ratio has increased from 54.2% to 66.6%. The company has an aggressive growth strategy that is based on acquisitions, and those acquisitions are based on debt. So far, Alimentation Couche-Tard seems to be coping well with the debt.

Alimentation Couche-Tard announced the company's interest in buying Caltex Australia to give the company greater access to Chinese markets. Canadian investors are already too aware of the consequences of poor Canada-China relations and its impact on Canadian markets. So far, China has only targeted Canadian companies operating in Canada but could easily target Canadian assets in China. It's unlikely China will target Canadian assets in China through 2020, but if the dispute drags on for another two to three years, I'd expect to see such events. China can turn to internal consumer demand to compensate for withdrawing foreign direct investment, whereas the Canadian economy does not.

Alimentation Couche-Tard has embarked on an aggressive purchasing strategy, but the company shouldn't neglect franchising opportunities. In terms of minimum investment, it costs a potential Alimentation Couche-Tard franchisee four to four-and-a-half times more to start an Alimentation Couche-Tard franchise than it would a **Seven-11** franchise. Higher start-up costs will deter many franchise owners and will hurt Alimentation Couche-Tard's ability to grow organically.

Opportunities

I like the company because of the company's strategic position on infrastructure. Alimentation Couche-Tard has more than 2,700 full-service convenience stores in Europe. The company is in a unique position to play a pivotal role in the electric vehicle (EV) market. In July 2019, Alimentation Couche-Tard announced the company will expand the company's EV charging infrastructure in Europe. The company currently has 150 EV charging stations in Europe and plans to expand this number to 200 by the end of fiscal 2019.

The company has 240 corporate stores in Norway, which is home to almost 300,000 EVs. Alimentation Couche-Tard has 642 corporate stores in Sweden, which has almost 80,000 EVs.

By testing and developing an EV infrastructure in Europe, Alimentation Couche-Tard can apply lessons learned to the North American and Chinese markets (political tensions notwithstanding).

Management needs to keep in mind changes in EV motorist's behaviour and adapt their stores to meet the needs of that particular market segment.

If I were Alimentation Couche-Tard, I would take what I learned from rolling out EV infrastructure in Europe and approach EV vehicle manufacturers. I would see if we can arrange a deal to offer deals to that company's car users and develop customer loyalty from the onset. Right now, there are fewer charging stations for EVs, but as the market expands, there will be more. Now is the time to lock in those customers and develop life-long relationships with them.

Alimentation Couche-Tard could electrify the company's existing consumer base and demonstrate to potential EV car buyers the viability of the product. This strategy would be medium to long term, as the EV market takes shape.

Further [opportunities for Alimentation Couche-Tard](#) would be to take convenience to another level and partner with **Uber** Eats or similar services. This service would put it in direct competition with **Amazon** Go and would distinguish its stores from others.

Final thoughts

This stock can [round out](#) a diversified portfolio. The stock's price has been on an upward trajectory for years. If you do buy this stock, keep an eye on the company's debt load. Alimentation Couche-Tard is poised to develop innovated infrastructure and continue to innovate in customer experience (mobile applications and healthy foods). The company needs to continue to do this with a healthy balance sheet. Debt issues notwithstanding, this company conveniently serves profits.

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