A Top Stock to Buy if the Coronavirus Pandemic Crashes the TSX Index Again

Description

Over the next few months, we're going to learn the extent of the economic damage caused by the coronavirus pandemic. While investors are cheering a gradual slowing of the spread of the insidious coronavirus, investors ought to focus on the next phase of this market meltdown.

The fear-induced panic is now in the rear-view mirror, but as we come to terms with the reality of the damage done to businesses and how long it's going to take to recover, earnings downgrades and reset expectations could fuel the next leg lower, as we head into the latter half of April.

Whether or not we test March lows again is anyone's guess, but that's not the question investors should be asking. Long-term investors should focus on limiting their risks and reaching out to the bargains that don't depend on the coronavirus being eradicated this year.

Defensive growth could be key to beating the market in 2020

There's too much uncertainty and far too much risk to justify overweighting your portfolio's exposure to the hardest-hit areas of the market. So, consider defensive growth stocks like **Alimentation Couche-Tard** (TSX:ATD.B), which stands to do relatively well, regardless of when a COVID-19 vaccine will be ready to go.

Couche has grown to become a mature company, and with that should come lowered growth expectations. Through smart M&A moves and disciplined organic efforts, though, the exceptional stewards running the show, led by CEO Brian Hannasch, the Quebec-based company has been able to remain running on the growth treadmill.

You see, when most growth firms mature, growth tends to fade, and their stocks tend to correct to adjust for the growth darling-to-stalwart transition. Just have a look at **Dollarama** stock, and you'll see a potential transition in motion. Most firms fighting to stay on the growth treadmill may look to pursue lower-ROIC (return on invested capital) investments to keep growth numbers alive to impress analysts on the Street.

Doing so doesn't create value in the form of upped cash flows, however. Keeping the ROIC number strong while supporting high growth numbers is a daunting task that few firms can accomplish, as they become behemoths. Couche is the outlier, though. The company is fortunate enough to have a front-row seat to a lucrative international convenience store market, and it also makes its own luck (and value) through calculated acquisitions.

Couche has perfected the art of the acquisition

In a prior piece, I'd highlighted the fact that acquisitions don't create value per se.

They can easily destroy value if a growth firm scrambling to maintain its numbers acquires with little consideration for the price paid. As with buying a stock, an acquirer needs to do their homework and always consider the price. It's hard to unlock value since most acquisitions of publicly traded firms tend to be at a premium to the market price. The real value creation comes from synergies that stand to be unlocked under the new management team.

With one of the best managers in the industry, Couche is able to create synergies like few others. And still, managers insist on getting wonderful prices, so value destruction as a result of M&A is not a possibility.

M&A, when conducted responsibly, can produce outstanding results and keep growth alive for longer, especially in a niche market. If you're going to constrain your financial flexibility with a debt-fuelled acquisition, you might as well ensure there's a more than reasonable chance that it'll create substantial value in the form of synergies.

As we head into an economic downturn, Couche may be ready to get its next big deal on the cheap. In the meantime, the c-store industry should continue to remain relatively stable, as the coronavirus continues to run its course.

Foolish takeaway

If you're spending more time on the WHO website than here at the Motley Fool, then you may just be guilty of "trading the coronavirus" rather than focusing on value to be had with individual businesses.

Yes, the coronavirus is moving everything these days, but instead of trying to guess when we'll be back to normal, focus on businesses that you know to be undervalued (like Couche) whether the pandemic causes the shutdown to last for another 10 weeks or another 10 months.

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