Why I Bet Half My Annual TFSA Contribution on Alimentation Couche-Tard (TSX:ATD.B)

Description

Last month, I invested half my annual Tax-Free Savings Account (TFSA) contribution, $3,000, on **Alimentation Couche-Tard** (TSX:ATD.B). Although the holding is profitable, I'm fully prepared for another near-term correction. I'll probably buy more Couche-Tard stock if the price falls below my cost of entry.

In these unprecedented times, I believe long-term investors need to retreat to high-quality stocks — companies with enough resources to survive the volatility ahead. Couche-Tard stock stood out as a clear favourite. Here's my underlying investment thesis.

Road travel over air travel

Much of the world remains on lockdown, as we deal with the pandemic. I'm not an epidemiologist, but there are signs that social distancing could be the norm for a while. Experts predict travel and self-isolation could be needed until we reach either herd immunity or develop a vaccine.

This could mean that global travel may not fully recover for another year or more. However, I believe domestic road travel will recover much sooner than international air travel. People could resume their regular commute from the suburbs to their downtown office many months before they plan an international holiday.

In other words, the economy will be opened up in phases. Couche-Tard provides an essential service for domestic road travelers. Circle K stores remain open now. Foot traffic could recover soon. That's the core reason for my bet.

Solid fundamentals

Couche-Tard seems well positioned for the temporary, near-term downturn. The company reported $1.85 billion in cash and cash equivalents recently. Its long-term debt is worth 10% less than the value of its equity. Book value per share represents 22% of Couche-Tard's stock price.

The company's management was also hyper-conservative with cash flow before the crisis struck. The dividend-payout ratio was a mere 10.3% last year. This means the company can sustain its dividend, despite the imminent dip in sales and income.

Couche-Tard stock valuation

Couche-Tard stock trades at 26.4 times forward earnings per share. That implies a 3.8% earnings yield. That's fairly decent, but the company is also well positioned for considerable growth.

Couche-Tard stores are spread across the world. The company owns over 15,000 outlets in Canada, the United States, Europe, Mexico, Japan, China, and Indonesia. It nearly bought Caltex to enter Australia but pulled out of the $5.6 billion deal at the last minute.

That means the company has the intention and dry powder to enter new markets in a big way. I wouldn't be surprised if the company executed a mega-deal soon. There's plenty of distressed assets emerging. When this acquisition-driven growth is accounted for, the price-to-earnings ratio looks more attractive.

Foolish takeaway

The economic recovery will likely be gradual and phased out over years. However, Couche-Tard stores remain an essential business. I expect road travel and daily commutes to recover sooner than air travel. Meanwhile, the company is in great financial shape. It can sustain its dividends and make big bets to grow faster.

I bet $3,000 on the stock last year, attracted by the valuation. Long-term investors seeking value and growth should probably add this stock to their watch lists.

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