I Just Bought This M&A King With My 2020 TFSA Contribution

Description

Alimentation Couche-Tard (TSX:ATD.B) is one of few Canadian firms that has perfected the growth-by-acquisition model. The convenience store kingpin is fortunate enough to be in a fragmented niche market. But for M&A-oriented firms, that's only half the battle. It's Couche's stellar management team that allows the company to create value in the form of synergies from every deal that it makes.

M&A is no guarantee of value creation

As you may know, acquirers must pay substantial premiums to an acquiree's public market value, making it tough for any acquirer to produce real value via M&A activities alone in the long run. That's why the stock of an acquirer tends to go down on the announcement of an acquisition.

Due diligence is key to creating "1 + 1 = 3"-type synergies from acquisitions. The price paid ought to account for integration risks, integration effort, and all the sort.

A "1 + 1 = 3" scenario is no guarantee after making an acquisition. And if an acquirer overpays or overestimates synergies to be had, the acquisition under question may not make sense, as shareholder value could stand to be destroyed.

A firm with a Berkshire Hathaway-like approach to M&A

I like to view Couche as a **Berkshire Hathaway** of the convenience store industry.

Like Berkshire, Couche isn't interested in acquiring anything if the price isn't right or if there's no chance at realizing sufficient synergies given the risks. Couche's prudence and patience has allowed it to maintain its impressive growth rate while maintaining impressive return on invested capital numbers.

Couche CEO Brian Hannasch and his team are ridiculously patient. They'll keep busy through organic growth initiatives if the opportunities to pay three quarters to get a dollar via M&A don't exist. The amount of due diligence that Hannasch and company put in prior to pulling the trigger is quite admirable.

Sometimes walking away is the best course of action

Couche recently walked away from its pursuit of Caltex Australia amid the coronavirus pandemic. The company put in a ridiculous amount of due diligence into a potential Caltex deal, so it may have been disheartening for investors to hear Couche dropped its US$5.6 billion bid.

Caltex was seen by many as a missing piece to the puzzle and would have given Couche a foundation to grow in the Australasian market. However, I'm a huge fan of Couche's decision to shelve the Caltex Australia buyout, which has been in the works for months.

Why? Caltex had its fair share of issues well before the coronavirus hit. Now that the risks have been raised substantially because of the coronavirus and the fact that liquidity has suddenly become worth its weight in gold, the "sweetened" deal to buy Caltex, I thought, no longer made sense for Couche. With a recession looming, Couche can get a much better bang for its buck by waiting it out.

Foolish takeaway

Over the coming months, Caltex is really going to start to feel the pressure. Meanwhile, many alternative opportunities could open up in the c-store market that could allow Couche to pay less to get more, all thanks to its enviable liquidity position.

Who knows? Caltex may be more than willing to take some sweetener out of the original deal now that Couche has taken a walk amid this coronavirus crisis.

In any case, I'm a raging bull on Couche, with its impressive liquidity position that'll allow it to scoop up bargains as they come along over the painful coming months. If you've got room in your TFSA, you may want to consider nibbling away on the dip, too!

Stay hungry. Stay Foolish.

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