



The Time to Buy Gas Stations Is When No One Is Driving

Description

On a fundamental basis, there are few Canadian companies I like as much as **Alimentation Couche-Tard** (TSX:ATD.B). Couche-Tard is an aggregator of gas stations around the world. However, Couche-Tard has transitioned into a number of [attractive growth areas](#) in recent years. That said, I'm going to focus most of my attention on Couche-Tard's gas station business in this article. After all, that's where the cash flow magic is happening now.

Growth-by-acquisition model

Couche-Tard's growth model is centred on acquiring other small regional chains of gas stations around the world. The company integrates the smaller chains into its larger corporate model. The strategy of "growth by acquisition" requires that Couche-Tard can effectively consolidate certain services together within the company's centralized model.

For example, the company could consolidate purchasing and pricing thereby increasing efficiencies. In addition, consolidating services increases collective productivity and profitability. Improving on the layouts of convenience store and branding of acquired companies has also been effective in improving the margins of acquired chains. This is something Couche-Tard has become very good at.

The great lockdown of 2020

Of course, in the current economic environment we find ourselves in (the IMF recently coined the phrase "the great lockdown of 2020"), fewer cars on the road means fewer fill-ups. Therefore, fewer cans of pop and bags of chips are being sold. That's where gas stations make the real margin.

Potential targets within Couche-Tard's acquisition pipeline may be starting to feel the pain. Therefore, buying opportunities may become more likely in the weeks and months to come. This may seem paradoxical, as most companies are focused on just staying alive rather than growth.

Couche-Tard has become very skilled at acquiring businesses. Further, Couche-Tard has a track

record of improving each acquired company's unit economics seemingly overnight. Couche-Tard has an insanely high return on equity of 22% across the organization.

A growing global player

The financial markets (mostly debt markets) have largely given Couche-Tard a blank cheque to continue to acquire and grow. One thing Couche-Tard has not done is stuck in its own backyard of Eastern Canada. The company has instead grown to become one of the largest global players in this space.

Couche-Tard has pursued deals all over North America, Europe, and recently Australia. The Caltex deal would give Couche-Tard a new market capitalization of roughly \$30 billion if it goes through.

Fragmented market

For aggregators like Couche-Tard, having a pretty wide open market that is largely fragmented in high-growth markets like the U.S. has allowed for some pretty low-hanging fruit in recent years.

Couche-Tard has few very large peers to contend with. The company has generally been able to nibble away at market share over time. This has allowed the company to grow at a much faster rate than the traditional gas station business might otherwise allow.

Bottom line

With auto markets slowly transitioning to electric vehicles, Couche-Tard has been experimenting with ways of meeting this demand. This old-school company has viewed this as a challenge and exciting new business opportunity.

Couche-Tard is perhaps one of the highest-quality and best value names on the Toronto Stock Exchange right now, in my books. I'd highly recommend investors looking for buying opportunities in this beaten-up market consider companies like Couche-Tard that are doing the same: acquiring businesses at rock-bottom prices.

Stay Foolish, my friends.

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