A Cash-Rich Growth King to Buy and Hold Forever

Description

Alimentation Couche-Tard (TSX:ATD.B) is a defensive growth king that knows how to do M&A right. The convenience store kingpin recently clocked in some stellar fourth-quarter fiscal 2020 results that beat on earnings, with adjusted EPS numbers soaring 81% year over year to $0.47 despite the COVID-19 pandemic.

As expected, panic buying of bare necessities such as toilet paper was happening at the local Couche-Tard-owned Circle Ks around North America, with larger, albeit less frequent transactions that fuelled some remarkable merchandise same-store sales (SSS) numbers. In Canada, SSS was up nearly 5% for the quarter, while the U.S. exhibited flat SSS numbers of -0.5%.

Couche-Tard exhibits tremendous resilience in this pandemic

In prior pieces, I highlighted the fact that the essential Couche-Tard was in a spot to maintain resilience in the face of the pandemic, as fear-driven consumers were more likely to load up their baskets at the local c-store, rather than risk contracting the deadly COVID-19 in the narrow aisles of the toilet paper section at a crowded grocery store.

While prices of average goods are likely higher at Couche-Tard than what you'd find at the supermarket, the premium was probably well worth the convenience and reduced risk of getting in close proximity to other shoppers — not to mention the scarcity premium on goods such as toilet paper in the midst of panic-buying sprees.

Decent cost management and a stellar liquidity position leaves Couche-Tard with deep enough pockets to go bargain hunting

For the quarter, operating expenses pulled back to 2.3% from 3.4%, as management reducedspending on marketing initiatives amid the pandemic. With modest cost cuts, the company is settingthe stage for continued profitability amid this unprecedented crisis.

When combined with the company's incredible liquidity position, having walked away from its pursuit of Caltex Australia, Couche-Tard is also in a spot to go bargain hunting for smaller peers in the c-store space that haven't been nearly as resilient as the latter over the last several months.

Despite Couche-Tard's demonstrated resilience, its growth king has barely budged higher over the past year. As we head deeper into this COVID-19-induced recession, investors ought to consider scaling into a position in the name before it has a chance to announce a significant acquisition that'll stand to fuel the stock's next leg up, possibly to $50.

While Couche-Tard's latest earnings beat was impressive, it didn't move the needle on the stock — at least not yet. The inactivity in the stock is a gift courtesy of Mr. Market for investors seeking resilient growth, but don't want to have to pay a big, fat premium for it.

Foolish takeaway

At the time of writing, Couche-Tard trades at nine times EV/EBITDA, which is far too depressed a multiple given the company has sustained a high double-digit ROIC alongside low double-digit revenue growth over the years.

As shares haven't filled the gap following the latest quarter, I consider the earnings beat coming free for investors looking to initiate a position in a predictable defensive growth company for the long haul.

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