A Blue-Chip Stock With Huge Upside Potential

Description

When you think of blue-chip stocks, you don't usually think of multi-baggers, or stocks that could double many times over many years. While it may be exciting to punch your ticket to a little-known small- or mid-cap growth stock before the crowd to get a front-row seat to what could be outsized returns over time, growth investors mustn't forget that there are wonderful large-cap growth businesses that are hiding in plain sight on the **TSX Index**.

Consider shares of **Alimentation Couche-Tard** (TSX:ATD.B), one of the bluer blue-chip stocks on the TSX, best known by its ownership of the convenience store chain Circle K (or Couche-Tard if you're from Quebec).

The convenience store kingpin has made a name for itself on the global stage over the past several years, rolling up the fragmented industry one smart acquisition at a time. Despite growing to command a market cap over $50 billion, the convenience store and gas station operator, I believe, still has plenty of growth left in the tank (pun intended).

As you're probably aware, as most firms mature (blue-chips in particular) and grow in size, their growth rates tend to plummet, and their valuation multiples tend to compress accordingly. In a prior piece, I'd noted that Couche-Tard was one of few growing large-cap firms that were capable of resisting the transition from growth darling into a low-growth stalwart as it continued maturing.

Couche-Tard: Staying a blue-chip growth darling into old age

Indeed, Couche-Tard is one of the oddball names that's capable of bucking the trend, not only sustaining high growth alongside high ROIC (return on invested capital) as the company continues to grow, but also re-accelerating forward-looking growth thanks to new growth outlets opportunistically unlocked by management.

The convenience store powerhouse with the urge to merge has the growth-by-acquisition M&A model down, creating massive value in the form of synergies from every deal it pulls the trigger on. The model has allowed Couche-Tard to average 12.7% and 22.9% in annual revenue and EPS growth, respectively, over the last decade, while keeping ROIC numbers sustainably in the mid- to high double digits.

That's incredible top- and bottom-line growth that's thanks to Couche-Tard's brilliant management team, which knows how to create value via M&A like nobody else in the business. To take it another step further, Couche-Tard has been exploring new areas of growth, including cannabis retail and the Australasia region — the latter of which Couche-Tard hit the pause button on amid the coronavirus pandemic; management walked away from its pursuit of Caltex Australia, despite putting in a ridiculously large amount of due diligence.

Couche-Tard: Unlocking new runways for growth

With cannabis retail waters, management seems to be dipping a toe in, with its small stake in cannabis retail store **Fire & Flower**, with the option to get a majority stake (50.1%) at some point down the road. Couche-Tard recently announced a cannabis pilot project in the province of Alberta, whereby Couche-owned c-stores and Fire & Flower cannabis stores will be "co-located" on certain properties.

There's no question that Couche-Tard wants to eventually become a "key player" in the cannabis retail scene. And with the recent pilot program with Fire & Flower, I think Couche-Tard is well on its way to becoming one. Give it a few years, and I think cannabis could have the potential to give the company's growth profile a considerable jolt that many analysts and investors may be heavily discounting.

Foolish takeaway

Couche-Tard is a large-cap company that's not about to lose its growth edge, as it continues maturing. The company has a plethora of M&A opportunities in the fragmented global c-store scene and a partial stake in a budding new industry that could reap fruit over the coming years. With shares trading at just 0.7 times sales, I think shares of ATD.B are nothing short of a bargain.

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