



Absurdly Undervalued: This Earnings Growth Stock Just Went on Sale

Description

Warren Buffett loves easy-to-understand businesses with a proven ability to [grow earnings](#) at a predictable, above-average rate over the long run. And, of course, shares of such companies have to be trading at a [reasonable price](#) to warrant hitting the buy button.

As you'd imagine, such stocks are hard to come by. But every once in a while, such an earnings growth king goes on sale, and it's these such times that value investors should be backing up the truck. Consider shares of **Alimentation Couche-Tard** (TSX:ATD.B), a convenience store kingpin that's still growing its earnings as if it had a market cap that was a fraction of what it is today. The convenience store consolidator has a world of growth opportunities and a liquidity position to take advantage of opportunities as they come along in this crisis.

Despite Couche-Tard's high growth ceiling, its predictable earnings growth trajectory, its proven management team that's capable of producing value via acquisitions and divestitures, its remarkable liquidity position, and its recession- and pandemic-resilient qualities, the stock still trades as though it's going out of style and for no good reason.

Couche-Tard: The king of convenience

Given the calibre of business you're getting in the face of one of the worst economic shocks in recent memory, you'd think that a growthy defensive consumer staple like Couche-Tard would be trading at a massive premium. At the time of writing, shares of the name have fallen into correction territory (10% peak-to-trough drop) after failing to break out of its ceiling of resistance.

The company has been quite inactive of late, having walked away from its pursuit of Caltex Australia, which would have given Couche-Tard a foundation in the Australasian region, a high-ROIC geography that management is very much interested in expanding into. Indeed, the pressures brought forth by the pandemic have changed the game. Couche's decision to put in ample due diligence only to walk away, I believe, is a prudent move that was largely unappreciated by investors.

Investors are getting impatient with Couche-Tard: That's an opportunity

Couche-Tard has more than enough dry powder to pull the trigger on an elephant-sized deal. Investors are longing for a big deal, but Couche-Tard's management team couldn't care less. You see, the company's exceptional stewards are all about long-term value creation. They are not appeasing short-term-focused investors who want to trade an M&A announcement.

When it comes to winning in the M&A world, it's more about striking the right price to maximize potential synergies from every deal and less about the frequency of acquisitions. In essence, the key to driving ample long-term value for shareholders is about the quality of acquisitions, not the quantity.

For anything less than a long-term investor, it can be frustrating just waiting for Couche-Tard to make a move to send shares higher. The rewards, though, I believe, will be far worth the wait, as Couche-Tard looks to execute a move that seeks to maximize potential synergies and minimize integration risks.

More recently, Couche-Tard missed out on an opportunity to scoop up **Marathon Petroleum's** Speedway chain of gas stations to 7-Eleven, which paid US\$21 billion for the prized assets. The price tag, I thought, was a tad on the expensive side and commend Couche-Tard for not getting into a bidding war with 7-Eleven and run the risk of overpaying to the detriment of long-term shareholders.

Foolish takeaway

Today, Couche-Tard trades at a mere 3.7 times book value, 0.7 times sales, and 15.9 times trailing earnings. The stock is far too cheap, given the firm is capable of sustaining high double-digit earnings growth numbers over time.

The stock recently corrected, and for no real good reason.

It seems as though investors are getting impatient with the company that should be rewarded for its incredible discipline. Once Couche-Tard finds the right deal, shares could soar on the announcement, so if you've got the patience, buy shares now and hold them before Couche-Tard has a chance to correct to the upside, possibly to \$60.

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Author

joefrenette

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