Why Alimentation Couche-Tard (TSX:ATD.B) Is a Buy in This Volatile Environment

Description

Amid the rise in new COVID-19 infections across the world and the signs of a slowdown in economic growth, the Canadian equity market has been highly volatile this month. Meanwhile, I believe the markets will remain volatile this year, given the nervousness ahead of the presidential elections in the United States.

So, it is an excellent time to strengthen your portfolio by buying stocks with resilient business models, such as **Alimentation Couche-Tard** (TSX:ATD.B). The multi-national convenience store operator, which operates over 14,000 stores, has returned over 1,050% in the last decade. The strong fundamentals had supported the rally.

Since 2011, the company's top line has increased at a CAGR (compounded annual growth rate) of 13%, while its adjusted EPS has grown at a rate of 22%. Along with organic growth, the acquisitions have boosted the company's financials. Since 2004, the company has acquired 60 companies, which has added approximately 10,200 stores.

Generally, acquisitions come at a hefty premium. However, Couche-Tard has completed these acquisitions without compromising its profitability.

First-quarter performance

In its recently completed first quarter, Couche-Tard's revenue fell 31.4% on a year-over-year basis to US$9.7 billion primarily due to the decline in fuel demand amid the pandemic-infused lockdown, the sale of its stake in CAPL, and unfavourable currency translation.

However, its merchandise and service division's revenue grew 8.5%, with the increased basket size offsetting the weakness in the traffic. The company's same-store merchandise revenue grew 7.7% in the United States, 3.4% in Europe, and 19.9% in Canada.

Despite the decline in its revenue, the company's adjusted EPS grew over 47% to $0.71 per share.

The higher road transportation fuel gross margins, sales leverage from organic growth, and cost-control initiatives drove the company's EPS during the quarter.

The company generated US$1.35 billion from its operating activities to increase its cash and cash equivalents to US$3.27 billion at the end of the first quarter. With access to a credit facility of US$2.5 billion, the company liquidity stands at US$5.8 billion. So, the company's liquidity position looks healthy.

Outlook

The United States convenient store industry is highly fragmented, with 62% of the retailers operating a single store and 80% of the retailers operating less than 500 stores. Currently, Couche-Tard has captured only 5% of the market share in the United States. So, there is significant scope for expansion both organically and through acquisitions. The company has ample liquidity to support its future acquisitions.

Meanwhile, the company is also working on driving its same-store merchandise revenue. The pandemic has changed the shopping behaviour of the people. Now, many people prefer to shop online. So, amid the shift in consumers' preferences, the company is also expanding its e-commerce platform and fulfillment capabilities, which could drive its traffic in the coming quarters.

Also, the company has announced to expand its Fresh Food, Fast program after receiving positive feedback and witnessing strong sales growth. So, the company's growth prospects look healthy.

Bottom line

Couche-Tard has returned over 13% this year, comfortably outperforming the broader equity markets. Despite the increase in its stock price, the company currently trades at an attractive forward price-to-earnings multiple of 19.3.

The company also pays quarterly dividends. Its dividend yield stands at 0.6%, which is on the lower side. However, the company has raised its dividends at a CAGR of 26.6% since 2011.

Given its strong growth prospects, recession-proof business model, solid balance sheet, and attractive valuation, I believe the company will deliver impressive returns over the next three to five years.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing

Date
2025/07/03
Date Created
2020/09/28
Author
rnanjapla