



Thanksgiving Gift: Buy This Growth Stock Now

Description

The first thing to take notice of with **Alimentation Couche-Tard** (TSX:ATD.B) is the incredible returns of the growth stock. In the past 20 years or so, it has delivered annualized returns of more than 25% — a 97-bagger! In the past decade, Couche-Tard delivered over 28% per year — a 12-bagger. Not many companies can boast these kinds of long-term returns.

The growth stock then, now, and in the future

Couche-Tard opened its first convenience store in Laval, Quebec, before sweeping across the country by making acquisitions. In 2000, it began its expansion in the United States. Along the way, it also made its way around the world by acquiring Circle K, which had franchised or licensed stores in other parts of the globe.

Today, Couche-Tard is a leader in the Canadian convenience store scene. Importantly, it only has about 5% of the market share in the United States. Therefore, it still has lots of room for consolidation in a highly fragmented industry. Other than the U.S., management also sees ample room for M&A activities in Asia.

Profitable in each and every year since IPO!

Couche-Tard is a wonderful business that has been profitable in *each and every year* since its initial public offering (IPO) in 1986! Convenience is simply the right area to invest in.

Convenience sales are resilient to recessions. According to a 2019 industry report from NACS State, in the last two recessions (the internet bubble and financial crisis), convenience sales actually increased by 5% and 8%, respectively.

Impressively, Couche-Tard also has a knack for converting EBITDA to free cash flow (FCF). From fiscal 2011 to 2020, Couche-Tard averaged a conversion of 46% of EBITDA to FCF! In 2020, it reported EBITDA of more than US\$4.5 billion and FCF of more than US\$2 billion, which was 45% of

EBITDA.

The growth stock's recent results

Based on fiscal 2020 numbers, 65% of Couche-Tard's transactions were convenience only, 25% was fuel only, and 10% was a mix of both. So, despite lower energy demand, the quality company will still remain resilient during pandemic disruptions.

In its most recent quarter that ended on July 19, Couche-Tard increased same-store sales in all the geographies it operates in (the U.S., Canada, and Europe). Additionally, its merchandise and service revenues climbed by 7% year over year to more than US\$3.8 billion. This translated to adjusted EBITDA growth of 31%.

Even though its trailing 12-month revenue declined 15% year over year, its bottom-line performance remained strong with diluted earnings per share rising 36%.

The next leg up?!

Since making and integrating some major acquisitions, including US\$4.4 billion CST Brands in 2018, Couche-Tard has once again paid off its debt and reduced its leverage ratio to below its target of 2.25 times. Specifically, its leverage ratio is 1.26 times, which is lower than its historical levels before making major acquisitions. This means that it won't be long before Couche-Tard will make a transformative acquisition again.

In fact, Couche-Tard had its eyes set for Australia in late 2019 and was already working on acquiring Caltex Australia before the pandemic hit. In April, though, the company dropped the US\$5.6 billion bid, as it focused on dealing with the impact of the pandemic to its global businesses and observed the pandemic's impacts on the industry in Australia.

Since [Couche-Tard](#) already did the due diligence on Caltex Australia, it could potentially reignite the acquisition as the pandemic situation becomes clearer. As a global player, it can also look for acquisitions in other geographies, with the U.S. and Asia being very high on its list.

The Foolish takeaway

Because of Couche-Tard's [resilience to recessions](#), strong FCF generation, and long-term growth prospects, serious investors should consider accumulating shares of the stock. With a PEG ratio of about one times, the growth stock is attractively priced.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date

2025/07/28

Date Created

2020/10/12

Author

kayng

default watermark

default watermark