White-Hot Stock: This Canadian King Just Soared 12% in Last Week

Description

When you think of corrections, you probably think of the traditional 10% peak-to-trough drop. A correction "corrects" stock mispricing mistakes made by Mr. Market. And while corrections usually hit a stock that's overrun its intrinsic value range with a steep sell-off, there are also instances where an underappreciated stock below its intrinsic value can correct to the upside.

Couche-Tard soars, regaining the ground lost in October

Consider shares of **Alimentation Couche-Tard** (TSX:ATD.B), which bounced 5.5% on Thursday, or nearly 12% over the past week. As I've noted in many pieces, Couche was a misunderstood stock that was overdue for a steep correction to the upside, as shares were bruised in October (shares dropped 12% on the month), and for no real good reason.

While Couche did have some exposure to U.S. election risks, given its exposure to states, I thought the pre-election October dip was just a pricing blunder made by Mr. Market — a blunder that Canadian contrarians should have taken advantage of. Couche stock steadily retreated for the month of October before almost recovering all of the ground lost in the month in just under a week to create a reverse **Nike** swoosh type of move.

With the Joe Biden Blue Wave off the table, U.S. corporate tax hikes and more stringent regulations are now far less likely. That bodes well for firms that conduct business in the states, like Couche. That was a likely contributor to the stock's big move this past week.

The M&A king with the urge to merge hasn't been doing so of late, and many impatient investors who ditched the name in October missed out on the big upside correction in the first week of November. But having walked away from its pursuit of Caltex Australia, many investors likely grew a tad impatient with the company that needs M&A to improve its chances of meeting its longer-term growth target.

The start of a series of acquisitions?

On Thursday, Couche announced a major acquisition after many months of relative silence. As you may know, Couche has been itching to gain some exposure to the higher-ROIC Australasian region, and it finally did so with the scoop up of Convenience Retail Asia in a deal worth US$360 million. The deal likely amplified the upward move on an otherwise bullish day for the markets, sending Couche stock up nearly 6% on the day.

Just a few days ago, I'd noted that it was a huge mistake for investors to discount the firm's acquisitive abilities amid this pandemic. The company had the liquidity to scoop up an elephant or make a series of smaller bets that could move the needle in a stock that's gone to sleep for most of the year.

The Convenience Retail Asia deal fits into the latter category as a relatively small acquisition. And with founder Alain Bouchard hinting at more Asian deals to come, I think now is as good a time as any to back up the truck on Couche stock before it has a chance to fly even higher. Shares are still absurdly undervalued relative to their long-term growth potential.

Bouchard noted that Couche plans to expand "with prudence" and that he and his firm see "big opportunities in some Asian countries right now."

Foolish takeaway

With shares trading at just 15 times trailing earnings, Couche is at the intersection of growth and value. With a breakout likely to be driven by more Asian acquisitions, the stock could be ready to rally to my price target of $53 by year's end, implying another 16% worth of upside potential.

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joefrenette