This Severely Undervalued TSX Stock Could Soar 40% in 13 Months

Description

Alimentation Couche-Tard (TSX:ATD.B) is a wonderful business with stellar managers and a proven track record for creating substantial value over the long haul through calculated M&A moves.

The stock has been stuck in a consolidation channel for quite some time now, likely because of the vaccine-driven devaluation in defensive essential retailers and unrealistic assumptions that electric vehicles are going to take to the streets overnight, thus harming Couche's fuel sales. Both concerns, I believe, put unfair pressure on the stock.

Over time, the stock will likely correct to the upside once investors have a chance to recognize the severe undervaluation in shares of the earnings-growth kingpin that could find itself firing on all cylinders in the new year.

Moreover, the longer Couche stock remains flatlined, the more explosive the upside move will be down the line. I'd punch my ticket into the stock now that it's out of favour, rather than waiting for the earnings growth king to become a sexy play again through the eyes of investors.

A stellar Q2/F21 quarter, an unjustified post-earnings dip

Couche clocked in its second-quarter fiscal 2021 results on Wednesday, causing share to surge at the open, only to nosedive into the red, ending the day down 0.2%.

The results were better than expected and quite stellar, given the coronavirus disruption. I can't say I understood the massive intraday plunge in the stock, especially when you consider the stock was already deeply discounted heading into the quarterly reveal.

Couche clocked in a quarterly adjusted EPS of $0.66, beating the consensus that called for EPS of $0.51. Same-store sales growth numbers were solid across the board, with the most significant jump being in Canada at 11.4%. Foot traffic was down, but basket sizes were up, a common theme we've witnessed among essential retailers during this pandemic.

Fuel sales were relatively robust, as too were fuel margins. I thought the fuel business's strength was a huge surprise, given that many folks were staying at home to reduce their risk of catching the deadly coronavirus.

A 25% dividend hike? Yes, please!

Revenues may have been meager at $10.65 billion (a 23% YoY decline). However, Couche more than made up for this with its solid bottom line beat. The company hiked its quarterly dividend by 25%, which leads me to believe that management is incredibly confident in its ability to continue growing its free cash flow at an above-average rate.

The stock initially popped, but investors were somehow able to find bits of hair on the quarter. Given the absurdly low multiple (13.3 times trailing earnings) and pandemic-resilience, I can't say I can explain to move, other than as an inefficiency on Mr. Market's part.

Share repurchase program renewed

Investors should back up the truck on the post-earnings dip and think the magnificent quarterly results essentially come for free. Management renewed its share repurchase program, allowing the firm to repurchase up to 33.3 million class B shares.

While some folks may think that Couche can't find meaningful acquisition opportunities to grow, given its balance sheet is remarkably strong with around $6 billion worth of cash and credit, the company is merely eating its own cooking considering how undervalued shares have become in recent weeks.

Couche stock is too cheap to ignore

Couche has the capacity to pull the trigger on another elephant-sized deal. The company is taking its time, but once it announces its next big move, Couche stock could correct to the upside, possibly past $60 (that's 40% worth of upside).

If you're like Couche's management team and think shares are extremely undervalued, you should seek to back up the truck as investors continue to rotate out of defensives and into the COVID recovery plays.

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