



Canadians: This Unloved TSX Blue-Chip Just Fell After a Stellar Earnings Beat — Buy it!

## Description

**Alimentation Couche-Tard** (TSX:ATD.B) stock got slammed after the release of some pretty stellar second-quarter fiscal 2021 results. The initial reaction to Couche-Tard's quarter was positive, but shares proceeded to tank going into the close, surrendering all of the opening gains and a bit more.

The quarter was a solid bottom-line beat — an impressive one, at that. Yet the broader rotation out of “boring” defensive stocks in favour of COVID-19 recovery plays seemed to overpower any post-earnings positivity. As investors continue to move funds out of defence and into offence, premier defensive growth stocks like Couche-Tard are likely to continue taking unfair hits to the chin.

At this critical market crossroads, such names are the babies that have been thrown out with the bathwater. And for those looking for [value](#) in today's relatively expensive market (it's been a sweet November for the market thus far — probably *too* sweet), recently hit defensives, I believe, are where the best bargains remain after last week's Black Friday blowout.

## A wonderful quarter; a mixed and muted reaction

Following Couche-Tard's mixed post-earnings reaction, I think long-term growth investors who jump in here stand to get the earnings beat for free, as shares are pretty much where they were going into the quarter.

The muted post-earnings reaction really surprised me, given the magnitude of the bottom-line beat. Couche-Tard didn't just marginally surpass expectations; it pole-vaulted over the consensus by nearly 30% (adjusted EPS of \$0.66 vs. the \$0.51 consensus) during the pandemic-plagued quarter.

The company posted remarkably strong free cash flows (FCFs), and with around \$6 billion worth of cash, Couche-Tard has enough liquidity to scoop up an elephant-sized deal that could really move the needle on the stock once announced.

In addition, Couche's “Fresh Food” offering is expected to rollout to another 3,000 stores over the next

five quarters or so. Such an initiative will likely drive operating margins, which, when combined with continued cost-efficiency efforts, should propel Couche-Tard's operating margins steadily over the next several years.

Couche-Tard may have done a terrific job of improving upon operational efficiencies over the last several quarters. However, investors still seem a bit impatient over the relative lack of M&A deals. The company's latest US\$360 million Hong Kong acquisition gives Couche a nice foundation in Asia. However, the deal itself is relatively small, especially when you consider the firm has billions' worth of liquidity.

Indeed, Couche-Tard is a firm that's not going to acquire for the sake of appeasing short-term investors. The company has a knack for creating substantial value from every acquisition, disposition, or asset swap it makes. If a deal doesn't make sense, management is more than willing to sit on its hands and return some capital to shareholders.

## An unloved blue chip that's too cheap to ignore

The company recently channeled **Berkshire Hathaway** in renewing its share-repurchase program. The program will allow Couche-Tard to repurchase up to 4% of class B shares' public float. Like Berkshire, Couche has ample amounts of dry powder on the sidelines and a stock that looks severely undervalued.

At the time of writing, Couche-Tard trades at 13.3 times trailing earnings, which is pretty absurd for the calibre of defensive growth you're getting.

If you're willing to ride out the continued rotation out of defensives, I think there's a lot of deep value to be had for long-term investors. In due time, management will be wheeling and dealing again. But you're going to want to be in the stock before it does, as acquisition announcements tend to act as fuel for Couche stock.

## Foolish takeaway

Sure, Couche-Tard is unlikely to [double or triple within a year in a return to normalcy](#) like many other COVID-19 recovery plays. But at the very least, you'll be able to preserve your wealth should we be in for some unforeseen negative surprises in the new year.

Moreover, the company is well poised to grow at an above-average rate over the next five years, regardless of what the economy ends up looking like on the other side of this pandemic. For a long-term investor, a decent margin of safety and above-average earnings growth potential is really all you could ask for.

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