



Couche-Tard (TSX:ATD.B) Stock Dropped: Buy the Dip!

Description

Alimentation Couche-Tard Inc. (TSX:ATD.A)(TSX:ATD.B), the owner of Circle K convenience stores, lost roughly 9% of its value this morning. Investors seem unhappy about its recent initiative to acquire French rival **Carrefour SA**. Nevertheless, I'm happy to use this dip to add to my position in Couche-Tard stock.

Here's a closer look at the deal and why it could add value for shareholders over the long run.

Couche-Tard + Carrefour

Investors recognize Couche-Tard as one of the largest gas station convenience store chains in the world. With 15,000 stores spread across North America, Asia, Europe and North America, the company is one of the world's largest (and perhaps most underrated) retailers.

Boulogne-Billancourt-based Carrefour is a supermarket chain with 2,800 small and 703 hypermarkets spread across Europe and Latin America. Acquisition the company would allow Couche-Tard to diversify the business and directly compete in the grocery and essential retail space.

This should excite investors. By diversifying the business model and expanding its footprint in Europe, Couche-Tard could create tremendous value in the years ahead. However, investors seem to have punished the stock today after the news broke.

Why is Couche-Tard stock falling?

Couche-Tard stock dropped 2% yesterday when the potential deal was announced and another 9% this morning at the time of writing. Usually, the stock of the acquirer drops when investors believe the deal is overpriced or unsuitable.

I disagree with both sentiments. While Couche-Tard is paying a 29% premium for Carrefour's stock, Carrefour stock has been steadily losing value for years. The company has lost 44.6% of its market capitalization since 2016 as it struggled to compete with other large retailers.

With its scale, extensive network and efficient management, Couche-Tard could certainly turn things around for the retail chain.

However, the bigger concern seems to be debt. At the moment, Couche-Tard has \$3.5 billion in cash and just \$9.2 billion in debt on its books. Debt-to-equity ratio is 77%. However, the Carrefour deal is estimated to be worth \$25.5 billion. That means Couche-Tard will have to borrow a substantial amount to complete the acquisition.

Corporate debt is cheap at the moment, so management can certainly justify this brave swing. However, it does alter the company's risk profile. Nevertheless, I'm buying the dip.

Long-term outlook

Couche-Tard stock has delivered a 752% gain over the past decade, driven by its acquisition strategy. Acquiring Statoil Fuel & Retail ASA in 2012 and CST Brands Inc. in 2016 allowed it to enter the European and U.S. markets, respectively. These were seemingly large deals at the time but paid off handsomely for shareholders over time.

There's no reason to doubt that management can pull this off again with Carrefour. That's why investors should certainly consider this dip in Couche-Tard stock price a rare buying opportunity.

Bottom line

Couche-Tard stock dropped on the news that it could acquire French grocery chain Carrefour. This could be a buying opportunity for long-term investors seeking [robust growth](#) and value.

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