Plunge Alert: Couche-Tard Stock Just Tanked 10% — Why I'd Buy

Description

Don't look now, but **Alimentation Couche-Tard** (TSX:ATD.B) stock is crashing, with shares tumbling another 10% on a day that saw the convenience store kingpin make a US$20 billion offer (which works out to about €20 per share) for French grocer Carrefour.

In prior pieces, I've noted that Couche had more than enough cash and credit to scoop up an elephant-sized deal and that it was likely that the firm would make a huge splash in 2021. And a huge splash it made to the downside, as investors were puzzled and surprised as to why the beloved Canadian c-store giant would want to get into the European grocery arena.

Couche-Tard drops a bombshell

Couche-Tard is looking to pay a lofty 29% premium for the ailing Carrefour to get into the grocery business. To many investors, the deal makes no sense, and it's not a mystery as to why the bid landed shares of Couche-Tard in the penalty box. But is a 10% single-day plunge overblown?

I think the recent sell-off in ATD.B is overblown beyond proportion.

In the past, I've referred to Couche-Tard as one of the most misunderstood businesses on the entire **TSX Index**. The confusion and disapproval over the firm's pursuit of Carrefour, I believe, has made Couche-Tard stock nothing more than a gift courtesy of a very inefficient Mr. Market, who doesn't know what to make of Couche-Tard's surprise bombshell announcement that it's going after Carrefour.

Yes, a nearly 30% premium on an acquisition is hefty. But as fellow Fool contributor Vishesh Raisinghani put it, Carrefour stock has been steadily losing value for many years: "The company has lost 44.6% of its market capitalization since 2016 as it struggled to compete with other large retailers."

After such a massive multi-year decline, the premium that Couche is paying suddenly doesn't seem so rich.

Investors just hate surprises

A major reason Couche-Tard stock is down so much is the surprising nature of the deal. As you may know, investors hate surprises.

Nobody thought the convenience store giant would get into the supermarket business a few weeks ago. The Carrefour pursuit had a lot of shock value, and it's not a mystery as to why investors would rather ditch Couche-Tard stock with the intention of asking questions later.

I think it's a mistake to ditch Couche-Tard here and think shares are beyond undervalued after the pullback was driven primarily by confusion and surprise. It also doesn't help that the staples have been heavily out of favour in recent months.

I'm a fan of the Carrefour deal

Many analysts and investors are quite bearish on Couche's Carrefour pursuit. Some don't see major synergies from such a deal. Others believe Couche will just end up selling a majority (or the entirety) of the Carrefour assets at a loss over the medium term. And some just do not get it and would rather just stick with what they know.

Personally, I'm not buying the popular opinion. I'm actually quite a huge fan of the longer-term potential behind Carrefour, especially at the modest price paid, and will be standing by Couche's proven management team on this one.

I'd say it's a mistake to bet against management, given its track record, and think it would be a wise move to give CEO Brian Hannasch and his team the benefit of the doubt. You see, such big M&A deals can introduce considerable risks. But Couche-Tard is one of the few firms out there that knows how to mitigate such risks by getting deals at the right price and conducting the due diligence to ensure integration efforts will be worth the synergies.

Fellow Fool Raisinghani is also a bull on the Couche's deal, and I think he's right on the money to give management the benefit of the doubt. I'll personally be accumulating more shares on weakness, as I think investors are heavily discounting management's incredible track record of creating substantial value from its past acquisitions.

I think the pivot into grocery is a brilliant way to diversify away from fuel while doubling-down on fresh food — an area that I believe will be vital to convenience stores' success in the future. Ignore the doubters. Buy the dip.

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