3 Reasons Why I'm Bullish on a Couche-Tard/Carrefour Deal

Description

Alimentation Couche-Tard (TSX:ATD.B) can't seem to catch a break these days. The company did a stellar job of managing through the COVID-19 pandemic and is in a spot to come roaring in a 2021 economic recovery. Yet, investors would rather gamble on speculative electric vehicle stocks, paying whatever price Mr. Market is asking for at any given instance.

2020 was a year where it paid to part with momentum while neglecting valuation. This year, I believe, the tables are probably going to turn.

Couche-Tard was a dirt-cheap stock that became unfathomably cheap following the latest plunge on news that the convenience store kingpin is in talks about a potential US$20 billion deal to scoop up French grocer Carrefour. With shares of ATD.B plunging over 10% on Wednesday, Canadian investors would be wise to go against the grain now that investors are scratching their heads over a deal that has perplexed almost everybody on the Street.

Here are three reasons why Couche-Tard is a strong buy after the Carrefour-induced dip:

Investors may be searching for any reason to sell the stock

First, consider how out-of-favour the consumer staples and defensives have been in recent months. Ever since the COVID-19 vaccine breakthroughs were revealed, people have been ditching their defensives for the hottest of reopening plays to maximize their upside in a return to normalcy.

Couche-Tard is a boring, old-fashioned defensive growth stock that you'd want to own if you think we're headed for a prolonged recession. With most betting on a 2021 economic recovery, though, Couche shares have been under pressure for reasons outside of the firm's control.

With a tonne of cash and credit, Couche had more than enough to scoop up an elephant in the c-store space. Couche decided to make a pivot into the grocery scene from out of nowhere — a move that left a lot of investors disappointed and confused. The grocery scene isn't known for its wide margins, and Carrefour wasn't exactly a grocer that was firing on all cylinders.

Undoubtedly, a Carrefour deal brings forth a lot of risks. At the same time, it could unlock a world of synergies that I believe is being discounted by most. As weird as a Couche-Carrefour deal would be, you should give management the benefit of the doubt given their track record of paying a dime to get a dollar and the profound synergies that have been generated through the years via M&A moves.

The Carrefour deal isn't as expensive as it seems

A US$20 billion price tag (nearly a 30% premium) is a high price to pay for a French grocer that's had more than its fair share of troubles over the years. But compared to the magnitude of Carrefour stock's multi-year decline, I'd say the premium isn't as steep as it seems. Carrefour stock has been a vast underperformer over the years, as the firm felt the intense squeeze on its margins.

So, why would a convenience store operator known for solid margins want to get into the business of grocery stores that typically see paper-thin margins?

Couche's *Fresh Food, Fast* offering has been a major boon for same-store sales (SSS) amid the pandemic. And with a grocery store thrown in, Couche would have easy, quick access to groceries for its European c-stores. In the same way Shopper's Drug Mart has leveraged **Loblaw**'s strengths as a grocer, I suspect a Couche-Carrefour deal would come with a world of synergies that most analysts haven't had the opportunity even to ponder.

Also, I wouldn't be surprised if Couche's incredible managers were able to turn the ship around at Carrefour, as it continues to strengthen its global c-store presence.

The French government could block the Couche-Carrefour deal

A Couche-Carrefour deal won't be to the liking of the French government.

In my opinion, there's a high chance that the deal could be blocked. Although I'd like to see the deal go through, the French government has a right to be concerned, and if a deal were to get the red light, I suspect the recent Carrefour-induced weakness in Couche stock will be corrected to the upside by around 12%. In any case, I'm looking to buy more shares on the latest dip.

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