This Growth-by-Acquisition King Is So Cheap it's Ridiculous

Description

Alimentation Couche-Tard (TSX:ATD.B) got sent to the penalty box by investors following its decision to surprise investors with its pursuit of French grocer Carrefour, a move that nobody saw coming. The French government has since blocked the deal, citing food security as the primary reason for opposing Couche-Tard's proposed $25 billion bid, but Couche stock has still yet to recover.

Although the Couche-Carrefour tie-up has fallen through, shares of Couche-Tard are still in the ditch. At the time of writing, ATD.B is still down around 20% from its September high. A large chunk of the decline was due to a proposed deal, which, like so many of the Couche's prior M&A pursuits (think Caltex Australia), has fallen through to the discontent of investors.

Couche-Tard stock in the penalty box

It would make sense for Couche stock to return to where it was before it delivered the shocking announcement, but it seems as though investors aren't willing to forgive the company for its pivot in acquisitive strategy or management's decision to shock and confuse investors with a surprise they perceived to be negative.

There are few things that investors hate more than surprises and uncertainty. I believe Couche's management made a big mistake — not by setting Carrefour in its crosshairs, but by not better informing investors of its intent to pivot into the grocery scene well in advance. A shift from convenience stores to grocery stores is a big one.

Perhaps management thought the surprise would have been treated as a positive shocker that would have sent shares of Couche-Tard soaring, as so many of the firm's past proposed pursuits have. They were wrong, and the stock now seems to have suffered a re-valuation to the downside, despite receiving a "no" from the French government.

"We regret the surprise. We don't regret the project," said Couche-Tard CEO Brian Hannasch.

Should investors forgive Couche-Tard for the surprise now that the Carrefour deal isn’t happening?

For those willing to forgive management for the surprise, I think there’s substantial value to be had in shares that I view as close to the cheapest they’ve been in recent memory at just 11.9 times trailing earnings. While the stock price isn’t as low as it was during the 2020 March depths, I think the risk/reward trade-off is the best it’s been in many years.

The company is firing on all cylinders, and although the surprising strategic pivot perplexed investors and analysts alike, I think it makes sense over the long run. I’m one of few Couche-Tard investors you’ll come across that actually cheered the deal, despite the plunging stock and the profoundly negative view of others.

I still believe that you have to give Couche’s management the benefit of the doubt. In a prior piece, I’d noted that the deal was likely to solidify Couche’s growth story over the extremely long term, comparing the Couche-Carrefour tie-up to the likes of the **Amazon.com**-Whole-Foods deal.

Foolish takeaway

Although I, like other shareholders, do not appreciate the surprise, I do understand how a grocer fits into Couche’s long-term plan and how it can create value for long-term shareholders. Moving forward, I expect Couche-Tard will be hungry to scoop up an elephant-sized deal in the grocery arena (possibly a U.S. grocer?), as the firm looks to put its huge cash and credit pile to work on value-creating opportunities.

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