Buy This Canadian Stock Before its Rally in 2021

Description

Alimentation Couche-Tard (TSX:ATD.B) is one of the world's largest operators of convenience stores. Its most recognizable brands are Circle K and Couche-Tard convenience stores.

With a market cap of $44.3 billion, Couche-Tard has grown from a single store in 1980 to over 15,000 stores spread across the globe.

Despite the TSX market rally of the last few months, Couche-Tard has been left behind. But it should be just a matter of time before this stock recovers as well.

Aggressive acquisition strategy

Couche-Tard has long been known for its aggressive acquisition strategy. Over the past 40 years, the company has acquired over 66 firms. That's an average rate of 1.65 buyouts every year.

The company recently took over 10 company-operated stores from U.S.-based Wadsworth Oil Company. However, this acquisition pales in comparison to several high-profile acquisition deals in which Couche-Tard was either outbid or the agreement fell through.

These deals include the multi-billion-dollar deal to take over Speedway gas stations and convenience stores. Speedway comprises more than 3,900 locations. Last fall, Couche-Tard made an offer for the stores. However, the Couche-Tard deal was rejected, and 7-Eleven, a subsidiary of Japan's Seven & i Holdings, signed an all-cash deal to purchase the Speedway gas stations network for $21 billion.

Also in the last year, Couche-Tard made an unsuccessful attempt to take over Australian gas station and convenience store chain Caltex. The deal was worth an estimated $7.1 billion at the time. The broken deal was blamed on the global COVID-19 pandemic.

More recently, Couche-Tard attempted a $25 billion takeover of French grocery chain Carrefour, but the French government blocked the deal.

Earnings release

In its most recent earnings release, Couche-Tard's adjusted earnings rose by 29.4% YoY (year over year) to US$0.66 per share, beating analysts' expectation of US$0.51 per share.

Unfortunately, the company's YoY earnings-growth rate dropped for the quarter, and the trend is heading in the wrong direction. For the quarter ended April 2020, Couche-Tard's earnings rose by 81%. The growth rate fell by 46.4% in the July 2020 quarter and further declined by 29.4% last quarter.

The company's total revenue is also trending downward quarter to quarter. The latest quarter marked the third consecutive quarter the company's revenue has declined; it declined to US$10.7 billion, down 22.1% YoY. In the company's previous quarter, the revenue fell by 31.4% from the same period last year.

The bottom line

Shares of Couche-Tard are trading at $39.96 as of this writing, with a dividend yield of .88%. Over the past year, the stock has traded between $30.57 and $47.57.

The most obvious reason for the stock's slide is the decreased store traffic due to the pandemic. Although customers are buying more goods per visit (quarterly same-store merchandise sales rose across the board), the effects of COVID-19 continue to hamper growth.

Couche-Tard's quarterly same-store merchandise sales grew 4.4%, 8.6%, and 11.4% in the U.S., Europe, and Canada, respectively. The company believes that consumers are consolidating their trips and buying more on each visit, rather than making more frequent trips for fewer products.

The good news is that with the coronavirus vaccine now being deployed en masse, it's a matter of time before store traffic returns to normal. This news, combined with the successful settlement of more acquisitions, should bode well for Couche-Tard stock in 2021.

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