



Top Pick Tuesday: This Great Canadian Growth Stock Has a “Value” Multiple

Description

It's rare to find a stock that's at the crossroads between growth and [value](#). It's even rarer to find a consumer staple stock on the resource-heavy **TSX Index**.

Alimentation Couche-Tard (TSX:ATD.B) stock fits the bill as a name that would cater to both growth and value investors. It's also a rare consumer staple that's been feeling the pressure of late amid the rush to cyclicals and reopening plays. Couche is [a rare breed](#), indeed. It deserves to trade a premium price tag for its compelling low-tech growth story, but it just doesn't after the firm's latest failed pursuit of French grocer Carrefour.

I believe shares of Couche are as misunderstood as they are undervalued and would encourage contrarians to consider buying a few on the latest dip, as they flirt with bear market territory (that's a 20% peak-to-trough decline).

Warren Buffett says to stay within your circle of competence!

Many may think that Couche-Tard broke Warren Buffett's rule of staying within one's circle of competence when it decided to go after Carrefour, a grocery giant. There's little overlap between convenience stores and hypermarkets, after all. The deal brings forth a new layer of risks, and the rewards frankly aren't too compelling, at least over the near term.

Grocery store margins are razor thin. And not every grocer can perform well in today's absurdly competitive environment. So, what's the deal with Couche's failed deal?

Many confused investors and analysts seemed to think that Couche was wandering outside its circle of competence. As a result, ATD.B stock corrected and has yet to rebound, even though the Couche-Carrefour deal is no longer happening due to regulatory roadblocks.

While Couche's management team would love another shot at acquiring the French grocer, I don't see it happening anytime soon, as French regulators cited food security as a major cause for concern. And in this midst of a global pandemic, it's not a mystery as to why Couche's pursuit fell through in a hurry.

This isn't the first time that Couche's widely publicized pursuits amounted to nothing.

As you may remember, the company walked away from Caltex Australia, a deal that seemed like one of the last pieces to the puzzle. There's no question that CEO Brian Hannasch and company are itching to grow in the Australasian region, and while a Caltex deal made sense, the price just wasn't right. And despite all the due diligence put in, the company was more than fine with walking away from the Australian c-store giant.

A growth stock punished for future-proofing its business?

Couche intends to purchase a grocer in the future, and that has many investors throwing in the towel. The deal may not make sense to some, but it makes a ton of sense to those who are willing to look a decade or so into the future. Electric vehicles (EVs) are coming, and Couche is due to see pressure on its fuel sales. Charging stations are likely to be more widespread over the next 10 years, so Couche needs to give people a reason to charge at its stations. The solution? Grocery shopping while you charge.

The future of convenience retail is going to be profoundly different. Think of a mix between a small-scale store (like Shoppers Drug Mart) and a quick-serve restaurant, where people can sit and enjoy fresh and hot food items while they wait for their EVs to charge in the parking lot.

Couche's *Fresh Food Fast* push has been a tremendous success. But to take it to the next level, it'd be nice to have a grocery store aboard, not just for supply and logistics capabilities, but for the expertise. Couche's intent to acquire a grocer, I believe, is a profound positive that should have sent shares rocketing higher.

Foolish takeaway

As investors continue to punish Couche stock for its intention to pivot, I'd look to accumulate shares on the way down. I've never been more bullish on the firm over the long term and would relish a further pullback to add to my already sizeable position. Today, Couche stock is my second-largest Canadian holding, and I plan to accumulate more shares incrementally over time, preferably on weakness.

CATEGORY

1. Investing
2. Stocks for Beginners

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Date

2025/10/01

Date Created

2021/03/02

Author

joefrenette

default watermark

default watermark