1 Top Undervalued TSX Stock to Buy Right Now

Description

The stock market may be frothy, and bargains may not be as abundant as they were a few months ago, but that doesn't mean there aren't any undervalued TSX stocks out there. If you know where to look, there's plenty of value out there, and you really don't have to look far, as some of the top undervalued plays are hiding in plain sight. And they're top buys right now, regardless of where you think the broader markets are headed next.

Couche-Tard: Severe undervaluation hiding in plain sight on the TSX Index

In this piece, we'll have a look at one undervalued Canadian stock that I'd look to buy in today's seemingly overvalued market. Consider shares of convenience store behemoth **Alimentation Couche-Tard** (TSX:ATD.B), a name that got crushed back in January because of a shocking acquisition pursuit that almost immediately fell through.

Couche-Tard surprised everybody when the Quebec-based company went after French grocer giant Carrefour. Couche-Tard's specialty is small-scale convenience stores, which typically command fatter margins — not supermarkets, whose margins are shaved down to the bone.

Upon learning of the Couche-Carrefour tie-up, investors and analysts, both confused by Couche's poorly communicated strategic pivot, hit the panic button, sparking a vicious correction in Couche-Tard stock.

Nearly four months later, Couche stock has yet to recover, even though the Couche-Carrefour deal, which was perceived as a massive negative, is not happening. Why? Some investors are still scarred over the pursuit, and they fear that Couche will give Carrefour another go, perhaps when the pandemic ends and French regulators are no longer worried about food security. Or maybe Couche-Tard will go after another low-margin hypermarket chain like **Metro** or one south of the border.

In any case, Couche-Tard investors don't want the days of double-digit earnings growth to be in jeopardy. A grocery acquisition would take a major toll on margins, and a bottom-line growth deceleration is what investors fear most.

Couche's pivot into grocery stores could pay massive dividends down the road

People don't get why Couche is keen on getting into grocery, and that has its undervalued stock in the penalty box. At the time of writing, Couche stock trades at a mere 0.87 times sales, three times book, and 17.2 times forward earnings — a low price to pay for a double-digit grower with a track record of commanding high double-digit ROIC numbers in the 14-18% range.

I think Couche-Tard stock is close to the cheapest it's ever been right here. To me, the move into groceries is essential. The future of convenience retail is fresh food and other grocery items you wouldn't expect to find at the local Circle K. As more electric vehicles hit the roads, Couche's fuel sales will take a hit, and it'll need more to beckon people into its locations.

While Couche has added fresh food through its "Fresh Food Now" program, it still has a ways to go. Buying Carrefour's supply chain (and supermarket expertise) would have solidified Couche-Tard's position as the c-store of the future.

The Foolish takeaway on Couche-Tard — my favourite undervalued TSX stock

Moving forward, I suspect Couche will, in due time, pull the trigger on a grocery giant. Fresh food is the future, and it needs to make a big splash, even if that means sacrificing a bit of margin over the near term. Investors hate the trajectory, but in due time, they'll understand why Couche is inclined to make such a move. Give CEO Brian Hannasch and its founder Alain Bouchard the benefit of the doubt and buy the TSX stock while it's still undervalued.

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