Market Melt-Up: 1 Canadian Growth Stock That Could Soar!

Description

Call it a market melt-up, if you will. It's been an incredible rally, and investors don't want it to end. As we head into earnings season, it's going to be do or die.

Whether this market's legs can hold up over the near to medium term remains to be seen. Still, with ample stimulus, a beefy US$2.3 trillion infrastructure spending plan courtesy of President Joe Biden, and COVID-19 vaccines that could crush the insidious coronavirus, I'd look to take the advice of the great Warren Buffett by not betting against America, as it heals from one of the worst socio-economic crises of all time.

Don't wait for a correction: There's deep value in this market melt-up

Many smart people, including Jamie Dimon, have given the economy a thumbs up. Still, every recent market melt-up has ended in a fast and furious correction.

The remarkably strong start to the year reminds me of the melt-up back in early 2018. Investors were euphoric over the Trump administration's corporate tax cuts, and they should have been. But the euphoria-driven melt-up didn't end well, plunging into a correction without a moment's notice. The market took over half a year to recover before fears of tariffs, and rate hikes pummeled stocks into bear market territory to end the year.

Looking back, 2018 was a pretty good year: there were corporate tax cuts and a robust economy. But the stock market posted meagre returns. On the flip side, 2020 was a terrible year for humanity. The COVID-19 pandemic sparked the worst stock market crashes in decades. Everything about the year was horrific. Except for stock market returns, which were up big, crash included. If you held on, you did very well.

Investors are optimistic that (late) 2021 will be a better year, as vaccines continue to fight with COVID-19 variants of concern. And it very well may be a better year that could see the pandemic dying down once and for all. Even if the rest of 2021 is better than 2020, there's no telling how the stock market will perform, especially after the recent market melt-up.

Valuations are stretched. There's no question about that. But there are bargains out there if you're a stock picker who's willing to scavenge the sea of bubbles (think EV stocks) and severe overvaluation. On this side of the border, I believe there's deep value that's hiding in plain sight.

Enter the Canadian king of convenience

Consider shares of **Alimentation Couche-Tard** (TSX:ATD.B): a convenience store company that's priced as though it's on its way out. Yes, EVs are coming. And they're going to pressure fuel sales until the day Couche-Tard decides to ditch fuel stations altogether. That said, the EV rollout isn't going to happen overnight. It'll be a very gradual shift, and the brilliant managers at Couche-Tard headed by CEO Brian Hannasch will have more than enough time to pivot and adapt.

In the meantime, the earnings will speak for themselves. As the pandemic ends and more people hit the roads again, fuel sales will bounce. And as Couche enjoys the fruit of the recovery, it'll be working very hard on evolving its convenience stores while keeping an eye open for a big acquisition.

Couche-Tard has the dry powder to scoop up an elephant. And I suspect it will make a massive move into the grocery arena. The company wants to give French grocer Carrefour another go, but it'll have to settle with a partnership in the meantime, as French regulators worry about the state of its national food security. If the pandemic ends, I'd be willing to bet that the French government will be more open to a foreign takeover of its top grocer by the likes of Couche-Tard.

In any case, Carrefour isn't the only grocery retailer in town. Couche-Tard could go after a Canadian grocery play like **Metro** if the price is right. While I wouldn't speculate on who would acquire who, I think Couche-Tard stock is a glimmer of severe undervaluation in a sea of overvaluation.

The stock trades at 13.6 times earnings — a low price to pay for a long-term, double-digit earnings grower. In the meantime, Couche will be put in the penalty box for its intent to buy a grocery chain.

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Date
2025/07/28
Date Created
2021/04/16
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