1 Cheap Canadian Stock to Buy in an Expensive Market

Description

Just because the Canadian stock market is a tad on the frothy side doesn't mean there aren't buying opportunities out there. There are top Canadian value stocks hidden in plain sight on the **TSX Index**, and some of them, I believe, are too cheap to ignore.

In this piece, we'll go into an undervalued but untimely name that I think has one of the widest margins of safety out there. It's misunderstood by most retail investors and analysts right now, but as management sheds more light on its perplexing strategic pivot, I think the Canadian stock could be capable of big gains over the next 18 months.

A deep-value stock in an expensive market

Without further ado, consider the Canadian convenience retailer that we all know and love: **Alimentation Couche-Tard** (TSX:ATD.B). The Canadian stock has been treading water of late, thanks in part to a failed acquisition attempt that seemed to have confused the crowd, enticing many to ditch the stock.

The stock fell into a vicious correction in a hurry. It was probably the ugliest reaction to a potential acquisition that I've seen in quite a while. Couche-Tard went after French grocery giant Carrefour, and investors wouldn't have it. The deal fell through almost immediately, yet the Canadian stock remained in the penalty box. While shares have been climbing out of the depths of the "Carrefour correction," shares remain off over 13% from their 2020 all-time highs.

Buying while others sell

Does Couche-Tard's intent to get into the grocery business really warrant such a collapse in its share price? Most definitely not. Other than for a few long-term thinkers who've been keeping up with the industry and Couche-Tard's latest initiatives, Couche's pursuit of Carrefour is a reason to throw in the towel.

There have been major positives that have been going on behind the scenes. Not only has Couche's cash and credit pile been building amid the pandemic (there's now enough liquidity for the firm to make its biggest acquisition yet), but the firm has been stealthily dipping its toe into new markets, most notably cannabis retail, while continuing to improve upon comps. In addition, the company is experimenting with a revolutionary new model of convenience store layout that's fully equipped with technologies that improve upon the convenience factor.

What will the convenience stores of the future look like?

Just check out Couche-Tard's retail innovation lab at McGill University, and you'll have an idea of where the convenience store giant could be headed over the next 10, 20, and 30 years. There's only one jigsaw piece that the company is missing, though. It's a grocery giant's supply chain.

Couche-Tard's Fresh Food Fast program has been profoundly successful. And the company needs to double down on the trend by acquiring a big-league grocer like **Metro**, **Kroger**, or Carrefour to future-proof its business. Once the inflation becomes problematic and the grocers, which already have razor-thin margin, feel the squeeze, maybe then Couche-Tard could have an opportunity to pounce.

Like it or not, EVs (electric vehicles) are coming, and convenience retailers will have to do more to beckon customers who can expect to wait over 20 minutes for their vehicles to charge.

Such a lengthy timespan would be perfect for doing a quick grocery mini-haul, sitting down, and having a coffee. If Couche-Tard can pull the trigger on a grocer and integrate its supply chain, the sky will be the limit for the Canadian stock, as it looks to expand its circle of competence to bring forth what could be the best version of Couche-Tard we've ever seen.

Foolish takeaway on the top Canadian stock

Couche-Tard is getting big, with a $44.6 billion market cap. But I think its best days are right ahead of it, as it looks to transform itself into the convenience retailer of the future. At 13.7 times earnings, Couche stock is ridiculously cheap, and contrarians would be wise not to sleep on the Canadian stock while it's down and out.

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Date
2025/07/28
Date Created
2021/05/05
Author
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