5 Reasons This Growth Stock Hasn't Taken Off … Yet

Description

Alimentation Couche-Tard (TSX:ATD.B) stock is currently trading at similar levels as in early 2019. So, essentially, the growth stock (if you can still call it that) has gone nowhere in the last two years.

However, I don't think it's fair to just give up on the growth stock just yet.

Studying the **TSX** stock's past might shed some light on its recent price action. The growth stock traded in a sideways channel for several years before. Specifically, from roughly mid-2015 to late 2018, the stock traded in the $27-32 per share range.

From June 2010 to August 2015, the extraordinary stock grew investors' money at a rate of nine times! These were mouth-watering returns of *+50% per year*! Importantly, this growth was supported by its super-successful global M&A strategy that was primarily executed in North America.

When Couche-Tard's earnings-per-share growth "slowed" gradually from 20% to 10% a year from fiscal 2016 to 2018, the stock had no choice but to experience multiple contractions. This was demonstrated by a resilient stock that traded in the multi-year sideways channel described earlier.

Mind you, a 10% growth rate is still very good growth. Many mature companies will drool at that kind of growth rate.

Here are five reasons why the growth stock hasn't taken off … yet.

Growth concerns

As the company has grown from a much smaller base over the past 20 years to the size that it is now, it has become increasingly difficult to grow at a high pace.

Today, investors may be questioning Couche-Tard's growth going forward. Historically, about 70% of Couche-Tard's growth came from its M&A strategy. Going forward, management expects its M&A contribution to lower to 50% while boosting its organic growth's contribution from 30% to 50%. Organic growth could come from a focus on the customer journey and product offerings.

Pandemic impacts

To get a high-level picture, Couche-Tard's revenues over the last 12 months were $43 billion; they were partly impacted by the pandemic.

Revenues and EBITDA, a cash flow proxy, declined 25% and 20%, respectively, year over year. However, its EBITDA margin improved from about 7.36% to 10.35%.

Dampened profits

Recently, Couche-Tard identified 355 North American sites that it planned to sell for network optimization purposes. That is, these sites don't make a strategic fit from a brand or regional scale perspective anymore. The company already came to an agreement in March to sell 49 sites in Oklahoma to Casey's General Stores for $39 million in cash. These divestitures could reduce Couche-Tard's sales, earnings, and cash flow in the near term.

Increased investments in converting its gas stations to charging stations for electric vehicles over time will dampen its free cash flow. While under construction, there could be temporary closures at the respective locations that could dampen its top and bottom lines as well.

Growth stocks are generally falling

There has been a selloff in the market, particularly in growth stocks — even for the darlings of their worlds like **Amazon**, **Netflix**, and **Tesla**.

So far this year, Couche-Tard stock has also been capped by its 50-day simple moving average, which sits at $42.70 per share at writing.

Valuation

The stock could be a bigger bargain. Couche-Tard share buyback program that began in November 2020 and ended in April 2021 saw the company repurchasing more than US$1 billion worth of Class B subordinate voting shares at about US$31.90 per share (roughly CA$38.60), which is a discount of 8% from yesterday's market close price of $41.96.

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Date
2025/07/28
Date Created
2021/05/13
Author
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