1 Cheap Canadian Growth Stock Poised to Skyrocket in the 2nd Half of 2021

## Description

You don't have to look far to find cheap Canadian growth stocks at value multiples. Check out **Alimentation Couche-Tard** (TSX:ATD.B), a retailer that may be the most misunderstood stock on this side of the border.



The company is in a strange place right now, just months after the convenience store giant's failed acquisition of French grocer Carrefour. Couche-Tard had steadily seen its cash and credit pile surge over the years. Patient investors awaited the next big c-store acquisition but were instead dealt with a shocker when Couche-Tard set its sights on the grocery arena.

Grocers and convenience retailers are entirely different beasts. The former tend to boast margins that are essentially shaved down to the bone. With the recent uptick in inflation, grocery margins stood to be shaved even thinner. Undoubtedly, many investors are no fans of the grocery space and those meagre margins.

In contrast, Couche-Tard has done a terrific job of pursuing initiatives to enhance its gross margins. While the company has been rather quiet on the M&A front in recent quarters, the managers have been hard at work behind the scenes, experimenting with same-store sales growth (SSSG) endeavours while adapting to the sales-dampening pandemic-plagued environment. Fuel sales in particular slid, as people stayed at home through the worst of COVID-19-induced lockdowns.

# Fresh Food Fast: Couche-Tard's new frontier of growth?

The Fresh Food Fast initiative has been a successful initiative that helped Couche-Tard steadily expand upon its margins.

Gross margins climbed from 13.2% in 2014 to just shy of 24% over the TTM (12 trailing months). For convenience retailers, which tend to be scattered, it can be tough to keep fresh food in stock. For Couche-Tard to take its fresh-food push to the next level, the supply chain of a grocer would really do wonders, not to mention it'd also help solidify a spot for convenience stores a future where the gas pump will gradually be replaced by EV (electric vehicle) charging stations.

Many people did not understand why Couche-Tard wanted to pay up a pretty penny for a French grocery store. Investors were ready for a big acquisition or a series of acquisitions within the c-store space. Instead, they were dealt with a strategic pivot that few saw coming, especially given management's prior commentary, which seemed to suggest Couche-Tard was ready to make a big splash with a c-store acquisition in the Australasian region.

## After two failed acquisition attempts, where does the cheap Canadian growth stock go from here?

So, where does Couche-Tard go next? Is it ready to future-proof its business for the EV era with a big-league grocery acquisition that could reverse recent gross margin expansion but bring forth major sales growth? Or is Couche going to take a step back and look for bargains within the global c-store space?



For investors, it's been an underwhelming past few years of underperformance. The cheap Canadian growth stock hasn't gone anywhere in a while, and the recent strategic pivot towards the grocery space opens up a new door to risks. Couche-Tard is a c-store firm with the urge to merge. It knows how to drive synergies within its circle of competence.

The grocery store is a whole different beast. And the cheap Canadian growth stock has taken a short-term hit, as investors seem to think management will continue exploring options in the grocery space. Who knows? The company could give Carrefour a sweeter offer on the other side of this pandemic. Couche CEO Brian Hannasch would relish another shot to buy the French grocery giant if regulators were to ease.

As it stands, Couche is coming off two big acquisition failures. Caltex Australia fell through shortly before the Carrefour deal, which sent shares into the latest correction.

Couche has the capital to make a massive splash. Nobody knows when or what industry (c-stores or grocers), but one thing is for sure: management will only make a move if it will enhance long-term shareholder value.

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