



## Why Couche-Tard (TSX:ATD.B) Stock Is up 22% This Year

### Description

**Alimentation Couche-Tard** (TSX:ATD.A)(TSX:ATD.B) is one of my favourite [rebound stocks for 2021](#). The company's convenience stores and gas stations across the world are at the forefront of the reopening. The company's top line should reflect the fact that people are traveling and consuming again. That's precisely what happened this week.

Couche-Tard announced fourth-quarter results yesterday that came in higher than expected. Expectations of such outperformance have already added 22% to the company's value since January 2021. Here's a closer look at Couche-Tard's near-term performance and valuation.

### Rebound stock

Couche-Tard operates a network of 15,000 convenience stores and gas stations across the world. Their footprint stretches from Mexico to Indonesia. However, their locations are usually optimized for office commuters and domestic travelers. That model put them in a precarious position last year when the economy was suspended.

Now that restrictions are easing, Couche-Tard is witnessing a rebound in food, beverage, and fuel sales. Same-store fuel volume increased 5.4% in the U.S., 3.6% in Europe, and 4.9% in Canada during this recent quarter. That's despite the fact that Canada and Europe aren't fully reopened yet.

The impact of pent-up demand is also being reflected in other ways. Couche-Tard saw a 0.9% bump in return on capital employed to 15.9%. Meanwhile, record-low interest rates allowed the company to refinance its debt and lower its leverage ratio from 1.54 to 1.32.

Better performance, higher sales, and lower debt has encouraged the management team to boost dividend payouts by 25%. The annual dividend is now 33.25¢ per share compared to 26.5¢ last year.

### Couche-Tard's valuation

Couche-Tard stock is climbing, as investors gradually realize its potential. However, the stock is up just 22% since mid-January — not enough to price in its true value.

The stock is trading at a price-to-earnings ratio of just 15.2. Also, the company is paying less than 10% of annual earnings in dividends, despite the recent bump. In other words, it's got plenty of cash flow to justify a higher valuation.

Management has been trying to unlock value by securing a mega acquisition deal. So far, they've had no luck, which is probably why they've been spending cash on repurchasing the company's outstanding shares. In April, the team approved a program to 32,056,988 Class B Subordinate Voting Shares, representing 4% of all outstanding shares.

This buyback program makes it clear that Couche-Tard stock is an undervalued, overlooked dividend opportunity.

## Bottom line

Alimentation Couche-Tard stock has been frustratingly rangebound. In fact, the stock has barely moved since 2019. The fact that it offers a paltry dividend doesn't help much either.

However, there are some catalysts that could unlock value in the months or years ahead. For one, the economy is reopening and travel is resuming. That's already being reflected on Couche-Tard's income statement, which is why the stock is steadily rising this week.

As the management team attempts another mega-merger or keeps repurchasing Couche-Tard stock, investors should finally see some upside. Keep an eye on this underappreciated value stock.

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