Alimentation Couche-Tard Stock Could Break Out After its Big Beat

Description

Alimentation Couche-Tard (TSX:ATD.B) just blew away the numbers on Wednesday after the close, causing shares of ATD.B to take off over 4% before pulling back and ending the day up 3.5%. The incredible quarter was thanks in part to re-accelerating fuel sales, which were suppressed through the worst of the pandemic.

A remarkable quarterly beat for the convenience store kingpin

Fourth-quarter fiscal 2021 EPS numbers came in at $0.52, handsomely above the consensus estimate that called for $0.42. Revenue was clocked in at $12.2 billion, higher than the $11.65 billion forecast — up a staggering 26.3%! Undoubtedly, the quarter was against favourable comparables. Still, with a considerable number of COVID-19 restrictions still in place in certain localities, Couche-Tard stock could have even more fuel (please, forgive the pun!) for its rally in its upcoming quarters.

"We had a steady improvement in parts of the network, especially in the United States, where we are starting to see a return to more normal driving behaviour," Couche-Tard CEO Brian Hannasch stated.

As you may remember, I'd urged investors to load up on Couche-Tard shares going into the quarter while they were still "stuck in limbo," noting the stock's severe undervaluation and the inevitable recovery of fuel sales that would present itself in the fiscal fourth quarter.

"I think the stock is a buy as it approaches its fourth-quarter fiscal 2021 earnings, which are on tap for June 28." I wrote in a prior piece. "The stock trades at a mere 0.9 times sales, which is far too low given the type of growth the convenience store behemoth is capable of."

Now that a solid top- and bottom-line beat is in the books, should investors look to buy the stock as it tests its long-time resistance levels in the $45-46 range?

What's up next for Couche-Tard?

I think the fiscal fourth-quarter beat is likely to be the start of a sustained rally to much higher levels. As one of the more misunderstood Canadian stocks out there, Couche-Tard has many things it could surprise investors with moving forward. Most notably, a big needle-moving acquisition could come at any time.

The company has an incredibly padded balance sheet. If Brian Hannasch and company wanted to make a massive splash, they can. However, given their prudence when it comes to M&A, I suspect they'll only move when it makes sense. After a failed acquisition attempt of c-store giant Caltex Australia and French grocer Carrefour, it's tough to say where Couche-Tard could be headed with its next big deal.

A grocery deal will likely be met with a nasty selloff, as grocery margins tend to be thin. A c-store deal, however, could kick off the start of a new rally and a breakout past those multi-year highs. Nobody knows which direction Couche-Tard will go next. The managers are in no rush, and they'll likely act on the best opportunity that presents itself over the coming year or so.

For now, the company has no issue investing in organic growth — an effort that could pay massive dividends down the road.

Couche-Tard looks dirt cheap and is a great buy in my books, especially following the firm's big beat.

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