



Revealed: My Top Canadian Breakout Stock for August 2021

Description

Alimentation Couche-Tard (TSX:ATD.B) is a convenience store darling and Canadian breakout stock that [charged higher](#) in July 2021. A solid Investor Day, solid quarterly earnings, and the fading of pandemic headwinds seem to have brought back optimism into the stock.

As the firm gets more active on the acquisition front after staying relatively [quiet](#) over these past few years, I think the Canadian breakout stock could have a tonne of room to run, as the valuation looks to correct itself to the upside.

A top Canadian breakout stock for cheap

For a company that aims to double its net income in five years, 16.5 times earnings, I believe, is ridiculously low.

Moving forward, decent earnings and more moves could be the main near- to medium-term drivers in the Canadian breakout stock. And if there's a broader market rotation into cheaper low-multiple value stocks, I'd look for further fuel to be added to Couche's rally, as it looks to make a run for the \$60 mark.

An intriguing acquisition

Couche-Tard's balance sheet is starting to pile up with cash. With a lack of dirt-cheap opportunities in the space and regulatory roadblocks in the way of desired deals, like the Carrefour deal that the French government blocked, it's easy to understand why long-time investors are getting impatient with the name and its near-term bout of underperformance relative to the TSX Index.

From a longer-term perspective, Couche-Tard is still crushing it. But in the world of investing, it's all about "what have you done for me lately?" In the case of Couche-Tard, not a heck of a lot. But things look to be turning a corner, and I think the company is about to get more active on the M&A front.

Personally, I think this "pricey" market environment is paving the way for more small-scale tuck-in c-

store acquisitions, rather than large game-changing deals in the grocery space. Such a lower-risk strategy, I believe, could propel shares much higher.

More recently, the company acquired Wilsons Gas Stops and Go! stores, a relatively small deal that gives Couche-Tard a nice presence on the Atlantic coast. I'm a huge fan of the deal and think more such small accretive deals could really propel price targets on the Canadian breakout stock moving forward.

A cannabis retail wildcard

It's not just c-store M&A that has me bullish on Couche-Tard shares. The company's foray into cannabis retail with its dance partner **Fire & Flower** appears to be showing signs of promise. I think the budding partnership will pay massive dividends down the road. Once Canada relaxes its cannabis retail regulations, expect Couche-Tard to grow its stake in Fire & Flower further and potentially include a small section within its convenience stores devoted to Flower-branded cannabis offerings.

I think many investors are underestimating Couche-Tard's prudent move into Canadian cannabis retail. In the near term, it won't make a lot of difference, but over the long run, Fire & Flower's success could bode really well for Couche-Tard.

Don't forget organic growth!

Finally, management has continued to explore ways to drive same-store sales growth through enhanced merchandise offerings (think fresh food), loyalty programs, and high-margin, private-label branding.

Moving forward, I expect more innovative tech to be equipped across select Couche-Tard locations. What kind of tech? Perhaps one should look to **Amazon** Go! Fresh stores for a preview of what's to come for the future of c-stores. Undoubtedly, it's ambitious. But I think Couche-Tard could evolve to become one of the leaders in convenience retail, as the landscape changes rapidly over the next decade.

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Author

joefrenette

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