3 Reasons Couche-Tard (TSX:ATD.B) Stock Is a Buy on the Way up!

Description

Don't look now, but shares of **Alimentation Couche-Tard** (TSX:ATD.B) are blasting off, adding another 2.7% to its incredible breakout rally. The stock surged as high as $52, up 3% on the day, before retreating modestly, closing at $51 and change. Undoubtedly, investors seeking the perfect mix of value and growth are finding it in the convenience store kingpin, which has seen its shares fail to breakout since the middle of 2019.

In technical terms, Couche-Tard stock couldn't look better. The longer a stock consolidates below a key resistance level, the greater the upside surge when it's time to breakout. With shares finally moving parabolic, I think there are many key reasons to believe that the stock may just be getting started. Should the right cards fall into place over the coming months, I'd look for the $60 level to be broken as the stock finally continues its next leg higher.

Without further ado, here are three reasons that Couche-Tard stock's rally is likely just getting started.

The valuation is still modest

First, Couche-Tard stock is still a dirt-cheap stock. Despite rallying over 42% since those January 2021 lows, a time when it seemed tempting to throw in the towel on those lagging shares, the stock trades at 16.8 times trailing earnings.

Over the next five years, I'd look for Couche-Tard to more than double its net income. To do so, the firm will need to continue working wonders behind the scenes on same-store sales growth initiatives while firing on all cylinders on the M&A front again.

The company hasn't made as many deals over the past few years. Still, there are reasons to believe that the company has turned a corner after failing to scoop up convenience store chain Caltex Australia last year and French grocer Carrefour earlier this year.

Given such promising growth prospects, the valuation on shares still makes no sense. As investors begin to appreciate the growth story again, I expect the stock to command a price-to-earnings multiple in the 20-25 times range. Growth trades at a premium these days, and in due time, Mr. Market will likely correct his mistake with ATD.B stock by allowing shares to fly much higher in a “correction to the upside.”

A pick-up in acquisition activity could support rally

Couche-Tard’s balance sheet is incredibly strong right now. It can pull the trigger on its biggest acquisition to date. But if the price isn’t right, Couche-Tard has many other acquisitions it can pursue on the global stage. In a prior piece, I’d highlighted the likelihood that the company would acquire smaller firms more frequently rather than making a massive splash with a blockbuster deal (and strategic shift) in a behemoth like Carrefour.

Indeed, investors seem to appreciate smaller, more frequent acquisitions. And that’s what the current environment could bring forth over the next 18 months. Just last week, Couche-Tard bought Wilsons Gas Stops and Go! stores — a small deal, but one of many that could be to come going into year-end.

Couche-Tard’s earnings continue to be robust

Finally, solid earnings are likely to continue flowing in. Thanks in part to fading COVID-19 headwinds, more cars will hit the roads, and the company will have the tides turned in its favour, all while it hits the resume button with its growth plan.

Given industry tailwinds could replace headwinds over the next year, I think it’s a bad idea to get in the way of Couche-Tard amid its newfound momentum. I think it’s just a matter of time before Couche-Tard stock breaks the $60 mark.

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Date
2025/07/27
Date Created
2021/08/05
Author
joefrenette