1 Canadian Stock I'd Pounce on Before it's too Late

Description

Alimentation Couche-Tard (TSX:ATD.A)(TSX:ATD.B) may very well be on the cusp of a multi-year breakout rally, the same type enjoyed by investors between 2012 and 2015. The incredible multi-bagger gains came courtesy of some remarkable earnings growth numbers. Undoubtedly, back in Couche-Tard's glory days, there was an acquisition or two to look forward to every several weeks. Unlike many other serial acquirers, however, Couche-Tard kept its debt levels in check, whilst insisting on only acquiring smaller firms rich with potential synergies.

There's only one way to create value via M&A: by paying less for a firm that's worth so much more. Undoubtedly, acquisitions come at a premium. And these days, they come at an even richer premium, with valuations on the higher end. That's been a major problem for many growth-by-acquisition companies, which may have stalled in recent years as cash piles continued building up.

A misunderstood Canadian stock that won't stay cheap forever

Couche-Tard hasn't been nearly as active over the past few years. The company tried to pull the trigger on blockbuster deals, but they just never came to be, either because the price wasn't right or government regulators were no fans.

When it came to French grocer Carrefour, which fell through in a matter of days before the pursuit was announced to the public, the stock ended up losing a step on the news and not recovering ground until months later. Indeed, investors needed assurance that Couche-Tard was not, in fact, pursuing a grocer, which would have taken a considerable toll on the firm's incredible margins, not to mention potentially jeopardizing the firm's ambitious growth prospects.

These days, Couche-Tard appears to be going back to its roots, with M&A at a smaller scale. While gobbling up behemoths in the c-store space like CST Brands created big value for shareholders, I think small-scale M&A is where Couche-Tard really shines, especially in an environment where it's tough to find real, meaningful value. Moreover, smaller deals tend to come with slightly fewer integration risks, lessening the risks of overpaying.

Getting active with M&A—once again

In a prior piece, I referred to Couche-Tard's focus on organic growth as a "spring cleaning" after years of acquisitions and dispositions. With two small acquisitions coming in within a matter of weeks, with Wilsons Gas and Go! and Porter's stores, I think Couche-Tard is about to put its foot on the gas again. And with that, some pretty solid returns, as the dirt-cheap stock looks to re-command its growth multiple.

After surging 17% year to date, Couche-Tard has pretty much been in line with the **TSX Index**. When you factor in solid earnings growth and the fact that the December-January correction probably shouldn't have happened in the first place, it becomes more apparent that Couche-Tard is one of the cheapest growth stocks out there today.

Doubt the company's growth story all you will, but they have a formula for growing earnings prudently. And as deals steadily come flowing in, I suspect it will be hard to keep Couche-Tard stock down as it continues moving the earnings bar higher on its quarterly earnings.

Moreover, the macro picture will also be working in Couche-Tard's favour, as more cars hit the roads and people start getting back to their normal routines.

A high-growth Canadian stock at a value multiple

The way I see it, Couche-Tard is a growth stock priced like a value stock. A proven growth strategy, a solid balance sheet, manageable debt levels, and some brilliant managers are just some of the reasons to get behind the name while its price-to-earnings are sagging at the lower end at around 16.5 times.

I think ATD.B shares are well on their way to $60, a level that would better appreciate the low-risk defensive growth of which Couche-Tard is capable.

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