



Can Canadians With Pent-up Savings Absorb High Fuel Prices?

Description

Are you ready for high inflation throughout 2022? Tu Nguyen, an economist at RSM Canada, said, “Just be ready for inflation this year to stay high. It’s going to be difficult.” Nguyen expects the inflation reading this month to be closer to 6%, although it could go up to 7%.

Meanwhile, **RBC** CEO Dave McKay warns of increasing risk if consumers spend their pent-up savings from the pandemic. McKay said, “We’re increasingly becoming concerned that, with the lack of supply of labour, the lack of supply of goods, the cost of energy increasing, that we’ll consume these savings.”

McKay adds the spending power could lead to an inflationary environment without growth. The worst-case scenario he said is [stagflation](#). But one of the serious concerns of people worldwide is rising fuel prices. As of March 14, 2022, the price per gallon in Canada is US\$5.94 versus the US\$4.69 in the United States.

Differing view

Brian Hannasch, CEO of **Alimentation Couche-Tard** ([TSX:ATD](#)), believes consumers can absorb the pain of higher pump prices. His reasons are the improved economy and re-opening from pandemic restrictions. He acknowledges demand disruptions due to persistently higher crude prices but the reopening of society can offset the risks.

Hannasch adds, however, “It’s not great news for consumers in terms of a price shock. But in terms of behaviour in our industry, these price increases were so large that the industry had no choice but to pass them through in a very competitive industry.”

For him, Canadian and American consumers are in much better economic condition compared to the downturns in 2008 and 2009. Hannasch said, “So while we don’t like these high fuel prices at all and their impact on the consumer and their pocketbook, we think we’re as a society in a much better place to weather that storm.”

Hannasch continued, “I just think we’re scratching the surface in terms of people going back to work

yet.” He cites Couche-Tard as among the companies that are beginning to reopen its offices.

Invest your extra savings

Canadians can [invest their extra cash](#) or money they won’t need anytime soon in Couche-Tard, a recession-resistant stock. The \$55.94 billion company is a global leader in convenience and fuel retail. It is present in 26 countries and territories. Within the strong store network (14,000), 10,800 stores offer road transportation fuel.

In Q3 fiscal 2022 (quarter ended January 30, 2022), total revenues and net earnings increased 41.2% and 22.9% versus Q3 fiscal 2021. Claude Tessier, Couche-Tard’s CFO, said, “We delivered once again a solid quarter as evidenced by increases of 15.2% in gross profit dollars and 18.0% in adjusted EBITDA compared to the same quarter in fiscal 2021.”

Aside from healthy fuel margins, Hannasch is optimistic that as the Omicron variant fades, traffic and volumes will soon revert to normal or pre-pandemic levels. Tessier adds that despite the overall challenging environment, they were able to manage higher-than-usual inflation and supply chain disruptions diligently.

For risk-averse investors, Couche-Tard trades at \$50.82 per share and pays a 0.9% dividend. While the yield is modest, the payout is safe and sustainable, given the 11.4% payout ratio.

Same priority

No one can say how long the [oil crisis](#) will last. Like in the pandemic, Canadians should prioritize savings over spending.

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