Couche-Tard's Big Breakout Rally May Just Be Getting Started!

Description

As the markets swoon again, **Alimentation Couche-Tard** (TSX:ATD) has steadily surged to hit a new all-time high north of $57 per share. Indeed, it's about time that investors respected the firm for its long-term earnings-growth potential and its ridiculously modest multiple.

The company has been firing on all cylinders for quite some time now, reporting solid earnings, even in the face of crisis. What caused the latest bounce in the top consumer staple? It seems like the fading of the "growth-at-any-price" trade has been a major contributing factor behind the latest bounce in those hot shares of Alimentation Couche-Tard. The days of buying stocks with big sales growth and 30 times revenue multiples seem to be drawing to a close. Call it the great growth valuation reset, if you will.

Couche-Tard has been hot of late: Can it continue heating up?

Now that investors are focused on growing profits and cheap valuations, it's not a mystery to see Couche-Tard lead the charge higher. Indeed, the convenience store giant is in a boring industry. But it's a boring industry that could see a lot in the way of technological innovation over the next 10 years.

You see, EVs (electric vehicles) are coming. More are popping up on the road, and with that will be less demand for fuel at the local gas-station-equipped Circle K. With a plan to incorporate charging stations over time, though, I think Couche-Tard is one of the convenience store giants that will adapt with the times.

Remember, Couche isn't in the business of selling gas. It's in the business of convenience. If consumers want charging stations, a hot meal, and fresh food offerings, Couche-Tard will provide that. Many investors fail to see the firm's agility to pivot with the times. If anything, Couche-Tard may be one of the most innovative old-school retailers in the country, with frictionless payments, enhanced offerings, and improved store layouts to look forward to.

Long-term opportunities on the horizon, as EVs overtake gas-

powered cars

Arguably, the biggest opportunity lies within high-margin merchandise sold at Couche-Tard, not with gas. Once charging stations gradually outnumber gas pumps, we'll likely witness consumer spending more time at the local convenience store. That's an opportunity, in my books. The company will need to amp up its offerings and give consumers a reason to enjoy their stay. The incorporation of seating and an in-store restaurant makes a tonne of sense. As too does the inclusion of more fresh food offerings, which have been a boon for Couche's margins of late.

With plenty of cash on hand to make an M&A splash, I'd not count Couche-Tard out, as it looks to evolve to the EV age. Charging stations, the approval of marijuana sales (Couche has a growing stake in pot shop play Fire & Flower), and synergy-rich acquisitions will be the needle movers for Couche stock in the long term. For now, I suspect a greater appreciation for value and profitable growth could sustain the momentum behind the name.

Where is Couche headed next?

I think $70 per share could be the next stop for this underappreciated behemoth. It took a big rotation out of tech to induce the current rally, which I think still has plenty of gas left in the tank (pardon the pun), given the still depressed 17.4 times trailing earnings multiple.

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