



Is Alimentation Couche-Tard (TSX:ATD.B) Stock Undervalued?

Description

Warren Buffett famously said that investors should buy the stocks of great companies and hold them forever. At the Motley Fool, we take Buffett's advice to heart and believe in the power of a long-term perspective when it comes to investing.

Although everyone likes to find a good value stock, sometimes it is better to buy the stock of a great company at an okayish price, as opposed to the stock of a mediocre company at a good discount. The stocks of businesses with sustainable, excellent performance make the best buy-and-hold stocks.

For this reason, new Canadian investors should focus on the stocks of companies with excellent fundamentals, understandable business models, essential products and services, a wide economic moat, solid financial ratios, and good management.

Alimentation Couche-Tarde

My beginner stock pick this week is **Alimentation Couche-Tard** (TSX:ATD.B). The company operates and licenses convenience stores, selling tobacco, groceries, snacks, alcohol, road and aviation fuels, lottery and bus tickets, and even offers ATMs and car wash services.

ATD.B has a massive presence across the world, operating 9,976 company-operated stores in North America, Europe, and Asia as well as an additional 1,900 franchised stores under the Circle K banner across South America and Oceania.

With 33.50% quarterly year-over-year revenue growth and 21.92% of the share float held by insiders, it's a strong bet that management thinks the company is currently undervalued. Year to date, the stock is up 8.29%, beating the S&P/TSX 60 Index so far.

Valuation

ATD.B is solid enough of a company that I would not worry about trying to time a good entry price.

However, new investors should always be aware of some basic valuation metrics, so they can understand how companies are valued and what influences their current share prices.

Currently, ATD.B is extending gains since Monday and is currently trading at \$49.67, which is near the 52-week high of \$52.42. In the current fiscal quarter, ATD.B's 52-week low is \$36.03. This is useful, as it gives investors a sense of the recent trading range.

ATD.B current has a market cap of \$53.19B with approximately 38.81 billion shares outstanding. This gives it an enterprise value of \$59.35 billion with an enterprise value to EBITDA ratio of 11.83, which is similar to peers in the consumer discretionary sector.

For the past 12 months, the price-to-earnings ratio of ATD.B was 20.22, with a price-to-free cash flow ratio of 20.57, price-to-book ratio of 4.13, price-to-sales ratio of one, and book value per share of approximately \$12.01. These metrics indicate that ATD.B could be fairly valued at this time.

ATD.B has a Graham number of 25.77 for the last 12 months — a measure of a stock's upper limit intrinsic value based on its earnings per share and book value per share. Generally, if the stock price is below the Graham number, it is considered to be undervalued and worth investing in. In this case, ATD.B does not look undervalued.

Is it a buy?

Despite its current share price being more or less fairly valued, long-term investors should consider establishing a position if they have the capital. Over the next 10-20 years, your entry price won't matter as much if ATD.B continues its strong track record of growth and profitability. Consistently buying shares of ATD.B, especially if the market corrects, can be a great way to lock in a low-cost basis. ATD.B has a business model that excels under inflationary or recessionary conditions, making it a great defensive pick for your portfolio.

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