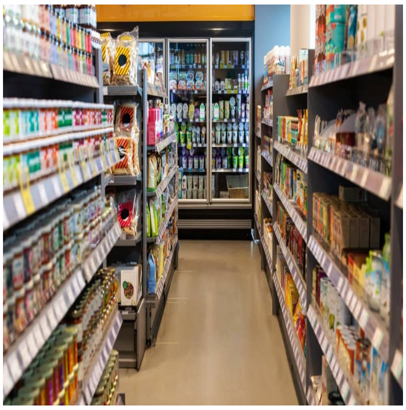

Alimentation Couche-Tard (TSX:ATD) Is Still Undervalued

Description

The stock market is historically volatile right now. Growth stocks have been mercilessly beaten down, but in recent weeks, even energy stocks have seen a correction. The global economy faces an ongoing conflict in Eastern Europe, a lockdown in China, and a recession everywhere else.

Put simply, it's a tough time to be an investor. However, there are some overlooked easy bets you can make to safeguard your capital. Convenience store chain **Alimentation Couche-Tard** (TSX:ATD) is the perfect example of a safe haven. Here are three reasons why this stock should be on your radar in 2022.

100-bagger

Most investors wouldn't think of gas stations as hypergrowth multi-bagger stocks. Nevertheless, Couche-Tard has proven to be an exception. The stock was trading at just $0.50 in late 2000. Two decades later, it's trading at 100 times that price. That's a compounded annual growth rate of 23.3% over 22 years.

Couche-Tard's success stems from its steady expansion strategy. The company has consistently deployed part of its cash flow into foreign acquisitions that have expanded the company's footprint. In recent years, this strategy seems to have hit a speed bump.

Too much cash

In recent years, the Couche-Tard team has failed to deploy the company's cash to maximize value. Since 2020, the company has abandoned two ambitious takeover targets: Caltex Australia and Carrefour in France.

Whether or not these acquisitions would have boosted growth is now irrelevant. What investors need to know is that the cash is piling up. At the time of writing, Couche-Tard has over $2.6 billion in cash and cash equivalents on its books. Hundreds of millions are added to that balance sheet every quarter, and the management team has few good places to park that cash.

This could be why the team decided to renew its share-repurchase plan. Alimentation Couche-Tard is on track to buy back 79,703,614 Class A multiple voting shares for roughly $4.6 billion. That represents 10% of the company’s public float.

Put simply, the company is returning cash to shareholders, because it can’t deploy it into a mega-acquisition.

Undervalued stock

Couche-Tard’s repurchase scheme also signals an undervaluation. The stock is currently trading at just 17.6 times earnings per share. That’s an earnings yield of 5.6% — far higher than the dividend yield of 0.55%.

In its most recent quarter, net income expanded by 25.0%. This double-digit growth rate could be sustained as the global economy recovers from the pandemic. That means Couche-Tard is currently trading at a price-to-earnings growth ratio far below one.

Bottom line

There’s plenty of uncertainty and volatility in the market right now. However, an undervalued stock with stable earnings and double-digit growth could be the ideal safe haven. Alimentation Couche-Tard fits that description perfectly. This underrated value stock should be on your radar.

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