Forget Shopify: Couche-Tard Is a Cheaper Growth Bet for the Long Run

Description

Shopify (TSX:SHOP)(NYSE:SHOP) is such a great company, but it's fallen from grace, and it may take years for shares of the e-commerce stud to regain their former glory. Indeed, shareholders have been pained, witnessing shares collapse 50%, then 60%, and now over 70% from their highs. While SHOP stock has been bubbly amid the "growth at any price" frenzy in 2021, I think it's quite a stretch to see the stock lose all of its pandemic gains.

High interest rates are kryptonite for firms like Shopify. With rates at risk of rising further (the 10-year note is above 3%), I wouldn't look to buy SHOP stock if you're one of many risk-averse investors who just can't stomach seeing their investment fall 20-50% from current levels.

If you're going to sell after some X% loss, you're better off seeking something less volatile. Undoubtedly, Shopify will bottom, and its ricochet will be very, very sharp. But when it will happen and how much downside it has until that ricochet is unknown.

While Shopify stock is getting cheaper, and the risks are arguably lower at these depressed levels, I would not rule out a plunge to $300-400 in shares of SHOP. Ultimately, rates and how the broader growth scene fares will determine Shopify's trajectory. While Shopify is a great company that's doing a lot of great things, its stock could fall, even as the business itself gets better. That's just the nature of the market we're in. It's all about the rates when it comes to growth stocks.

Instead of Shopify, I'd look to boring earnings growth plays like **Alimentation Couche-Tard** (TSX:ATD). They're profitable, with strong balance sheets, and will be most secure from inflation and rate-induced volatility.

Couche-Tard: Earnings growth and a strong balance sheet

In times like these, where stocks move based on the bond market, when predictability is worth a premium. In that regard, Couche-Tard stock is worth its weight in gold. It's been in the convenience store business for decades, and it has one of the best managers in the space. The firm has grown via disciplined M&A. Although the firm hasn't made a splash of late, it could soon and such a deal would be sure to send shares higher, given management's propensity for creating value from M&A.

Yes, convenience stores and retailers are boring. But unless you can predict rates, it's wise to reduce a bit of your exposure to the trajectory of rates, with a cheap, profitable growth company, as opposed to an unprofitable story stock.

I'm a huge fan of Couche for its managers. They're so disciplined, as owners should be. They treat the firm as they'd run a family business, with prudence, not as some firm where they could juice short-term gains at the cost of long-term fundamentals.

Today, Couche has cash to go shopping in the global convenience store or grocery scene. It's in talks to acquire a U.K.-based firm and potentially Petro-Canada gas stations. Couche-Tard is all about synergies and getting a great bang for the buck. Moving ahead, I expect more of the same. Discipline and value creation en route to the firm's ultimate goal of doubling its profits.

Bottom line

While Shopify could bounce 10-30% in a week if rates were to roll over, it could also plunge by the same amount if rates climbed further. With that, I'd much rather own a cheap earnings grower like Couche-Tard.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:ATD (Alimentation Couche-Tard Inc.)
3. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. joefrenette
2. kduncombe

Category

1. Investing

Date
2025/07/22
Date Created
2022/05/10
Author
joefrenette