Alimentation Couche-Tard: A Top TSX Stock Pick for July

Description

Alimentation Couche-Tard (TSX:ATD) isn't exactly a firm that's hogged the headlines over the past few years. The convenience store icon has grown primarily via acquisitions over the past decade, but has since focused on more organic growth initiatives, including expanding the private label and including more fresh food at existing stores. It's this same-store sales growth (SSSG) focus that's helped Couche-Tard really raise the bar on its sales and earnings over the years.

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Sure, Couche-Tard may not have the most exciting growth story out there, but it does have a wide moat and a predictable upward earnings trajectory. That's exactly what investors should strive to invest in at a time like this, with rates on the rise and tech on the decline. It's hard to find easy-to-understand firms with predictable earnings growth. And it's even harder to find such plays at a reasonable price of admission.

Couche-Tard: An earnings-growth stock at a reasonable multiple

Couche-Tard fits the bill as a cheap earnings grower that can navigate through the coming economic recession. Though it's hard to find a glimmer of value like it today, investors must understand that they don't need a multitude of different ideas to do well over the long run.

As Warren Buffett once put it, it just takes a few really great ideas to score solid results over a long-term horizon.

In recent weeks, Couche-Tard has sunk in sympathy with the broader stock market. Though Couche-Tard is arguably one of the best firms to own when consumer balance sheets tighten, many still seem confused about how the firm plans to adapt as the next generation of EVs (electric vehicles) roll out across North America.

What about the disruptive impact of EVs?

Couche-Tard has thrived in markets like Norway, where EVs are more common. Indeed, the Norwegian market may be viewed as North America at some point in the future as far as EV adoption is concerned. With EV charging stations and plenty of grocery items to keep patrons busy, the future of the convenience store seems intriguing, as fuel fades in favour of charging minutes and higher-margin merchandise purchases.

What about valuation?

Couche stock trades at 15.9 times trailing earnings after correcting 10% to around $53 and change per share. That's a remarkably low multiple for a firm that can grow its earnings by a steady double-digit percentage rate. Further, with a healthy balance sheet to take advantage of global opportunities, I'd argue that the next big deal will be a major needle mover. Couche-Tard is all about driving synergies from every deal it makes, big or small.

As we inch closer to Couche-Tard's next big acquisition, the stock could really begin to heat up again, even if the rest of the TSX Index sinks lower in anticipation of a drastic economic slowdown in 2022 or 2023.

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The bottom line for Foolish investors

At the end of the day, it's all about real earnings and cash flows. Couche-Tard is a boring cash cow that's starting to get too cheap to ignore for those looking to invest in the future of convenience retail.

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