



How Defensive Is Couche-Tard (TSX:ATD) With 40-Year-High Inflation?

Description

Consumer staple stocks aren't immune to inflationary pressures, although the sector is losing by only 0.74% year to date. One of its top draws, **Alimentation Couche-Tard** ([TSX:ATD](#)), has plunged 8.99% in the last five days following a 15.3% drop in net earnings in Q4 fiscal 2022 versus the same period in fiscal 2021.

However, the US\$2.68 billion net earnings in fiscal 2022 represents a 0.8% year-over-year decline. Brian Hannasch, president and CEO of Couche-Tard, said, "We are proud to report a remarkable year despite the continued pressures caused by the pandemic, global inflation, and staffing challenges."

Hannasch added, "With our operational and financial resilience, we had record-breaking results across key metrics and remained focused on our strategic goals." Market analysts covering the stock recommends a buy rating. They see a 24% upside potential from its current share price of \$62.39 in 12 months.

Navigating difficult economic times

The global leader in convenience and fuel retail operates in 26 countries and territories. Currently, the network consists of 14,008 stores, where about 10,800 offers road transportation fuel. Its most popular banners are Couche-Tard and Circle K banners.

In the 12 months ended April 24, 2022, total revenues increased 37.3% to US\$62.8 billion. Merchandise and services revenues were strongest in Europe and other regions, while the U.S. market contributed the most to road transportation fuel revenues.

Couche-Tard's CFO Claude Tessier said, "Our results for both the fourth quarter and fiscal 2022 have exceeded our expectations on many fronts, especially in light of a challenging global environment. Inflation was particularly notable during the fourth quarter, impacting all aspects of our business."

Hannasch, said regarding the Q4 fiscal 2022 results, "No doubt with inflation hitting 40-year record highs this quarter, consumers have experienced pressure both at the pump and at the checkout line."

Management's in-store localized pricing efforts and fuel promotions provides good value for Couche-Tard's customers.

Positive outlook

Brian Hannasch admits that rising fuel costs and inflationary pressures are headwinds for the business. He said customers are driving less and putting less fuel in their tanks on average. They also buy cheaper beer and cigarettes in the shops. Nevertheless, he views the situation as temporary.

According to Tessier, Couche-Tard is well positioned to continue delivering strong results and return further value to its shareholders. The focus remains on an ambitious double-again strategy. Management will enter fiscal 2023 with a healthy financial position and strong capital structure.

Investors can also look forward to a better and higher dividend yield. If you invest today, Couche-Tard pays a modest 0.88%. In fiscal 2022, management increased its annual dividend by 25%. The yield might be too low for income investors, although the payout should be safe and sustainable. Also, it boasts a dividend-growth streak of 12 years.

Defensive play

Couche-Tard is a forward-looking company and remains an excellent [defensive play](#). The growth opportunities are tremendous amid the complex environment. Its continuing expansion and acquisition strategy should help produce huge cash flows and strengthen the balance sheet further. Take a position now before this consumer-defensive stock becomes pricey.

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