



Will Couche-Tard (TSX:ATD) Pursue a Potential Growth Driver?

Description

Some Canadian companies are in acquisition mode, notwithstanding the complex market in 2022. **Suncor Energy** is shopping around for a new CEO as it mulls over the sale of its downstream assets, and there may be serious buyers of its gas stations. While the company carries out a strategic review of its downstream retail business, the network of Petro Canada consists of approximately 1,500 fuel stations.

Alimentation Couche-Tard ([TSX:ATD](#)) might be open to the idea of pursuing a potential growth driver. In 2021, the leading convenience retailer globally tried but failed to acquire French grocery chain **Carrefour SA**. As of the 52-week period ending April 29, 2022, the \$52.63 billion company had 14,008 stores.

Couche-Tard might be down 2.53% year-to-date, but it counts among the top [consumer-defensive assets](#) on the **TSX**. The stock trades at \$51.44 per share and pays a 0.84% dividend. In the last decade, the total return has been a respectable 582.27% (21.15% CAGR). Market analysts covering the stock have a 12-month average price target of \$63.49 (+23.4%).

A remarkable year

Commenting on the financial results for fiscal 2022, Couche-Tard President and CEO Brian Hannasch, said: "We are proud to report a remarkable year despite the continued pressures caused by the pandemic, global inflation, and staffing challenges." He credits the record-breaking results to the operational and financial resilience of the business.

For fiscal 2022, total revenue increased 37.3% to US\$62.8 billion versus fiscal 2021, although net earnings declined slightly (0.8%) to US\$2.68 billion. Couche-Tard also incurred an impairment loss of US\$33.7 million from its investment in **Fire & Flower**, an associated company.

Claude Tessier, Couche-Tard's Chief Financial Officer, 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." However, Tessier noted the impact of inflation on all aspects of the business.

Nevertheless, management starts fiscal 2023 with a healthy financial position and strong capital structure.

Deal obstacles

The size of Suncor's Petro-Canada makes it one of Canada's largest retail fuel and convenience store chains. Market analysts estimate the price tag to be over \$10 billion. While Couche-Tard can afford to pick up the tab, there would be obstacles, particularly antitrust issues.

According to industry experts, there's a lot of overlap with Couche-Tard's stores and gas stations. Ryan Bushell, president of Newhaven Asset Management Inc., said: "I think Couche-Tard would have a hard time buying the whole network. There would be competition issues there, concentration issues."

Martin Landry, an analyst at **Stifel GMP**, said Petro-Canada stations are valuable assets because they are well-maintained, of high-quality, and are in strategic locations. However, Landry said Couche-Tard might need to divest 50% of the gas stations to be free of the antitrust issues.

Dominant position

Whether Couche-Tard considers Petro Canada or not, the business will continue to thrive. Its dominant position in the convenience store industry and road transportation fuel retailing will remain intact. The current share price is a good entry point, while the dividend payments should be safe and sustainable.

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