This Canadian Stock Looks Beyond Undervalued

Description

The Canadian stock market is rich with value these days after tumbling into a correction (a 10% drop) and flirting with bear market territory (that's a 20% drop). Indeed, it's tempting to check out the American markets after the vicious and historic first-half slide that marked the worst start to a year in nearly 50 years.

Still, the greenback has been incredibly strong, with the Canadian dollar falling to around US$0.76 at its worst. Such strength in the U.S. dollar has been putting pressure on American corporations. Though the loonie has rallied relative to the dollar in recent weeks (it's currently sitting at just shy of US$0.78), a more hawkish Federal Reserve could easily reverse the trend again.

In any case, the strong U.S. dollar is a nice temporary tailwind for the many Canadian companies that rake in a considerable amount of U.S. dollars. In this piece, we'll look at one TSX stock that seems too cheap to ignore and could benefit from a relatively weak Canadian dollar.

Couche-Tard: Cheap relative to its growth

Consider shares of convenience store owner and operator **Alimentation Couche-Tard** (TSX:ATD), which reports its earnings in U.S. dollars. The firm recently clocked in some pretty solid results, with revenues surging 34% to US$16.4 billion, up from US$12.2 billion in the same quarter last year.

Indeed, the double-digit revenue growth was encouraging. However, it is worth noting that last year's headwinds paved the way for a turbulent time. When compared against such a weighed down quarter, Couche's latest results look robust.

Though more than 30% sales growth is not sustainable, I think 15-20% revenue growth is possible, as management continues taking steps toward its five-year plan of doubling net income. We're more than a year into the five-year plan, and Couche-Tard still seems capable of achieving its goal, despite the inflationary pressures and a recession that may be just months away.

Couche-Tard CEO Brian Hannasch was "proud" of his firm's performance through "continued pressures caused by the pandemic, global inflation, and staffing challenges." And I think he has every right to, given how well the company has played a rather difficult hand.

Per-share earnings came in slightly better than expected at US$0.55 versus the consensus calling for US$0.53. Though the two-cent beat was not enough to excite investors upon the release of earnings, the recent rally in the stock is encouraging, as the firm looks to continue mitigating risks common to the environment.

Can Couche-Tard keep its growth running?

Couche-Tard is a stealthy growth stock in my books. At just shy of 17 times price to earnings (P/E), the stock trades like a garden-variety retail stock with single-digit growth expectations. Today, shares are pretty much in line with the five-year historical average P/E of 16.9.

Looking ahead, I think Couche-Tard is likely to make a big acquisition. The current ratio, which gauges liquidity (current assets divided by current liabilities), is at a healthy 1.2, which leaves the firm quite a bit of financial flexibility to go wheeling and dealing, as market valuations decline across the convenience retail industry.

Even if Couche doesn't make a massive splash in M&A over the next two years in Canada, the U.S., or the Australasian region, I still think the firm can keep its growth rate up. One way or another, management always finds a way to create value.

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