Alimentation Couche-Tard Stock Could Soar if it Acquires Suncor's Retail Business

Description

Shares of **Alimentation Couche-Tard** (TSX:ATD) have been powering higher over the past few weeks, thanks in part to some better-than-expected results and talks that the incredibly liquid firm may be in the running for **Suncor Energy's** gas stations in what could be a marked-down price.

Indeed, hoarding cash leaves one feeling the full force of inflation's impact. However, with market valuations contracting while credit becomes harder to come by as a result of higher interest rates, it's cash and strong balance sheets that could separate the haves from the have-nots.

As valuations contract and firms look to sell retail assets, it's Couche that could have a chance to pay three quarters to get a full dollar, so to speak. At writing, the company has more than $2.2 billion in cash and cash equivalents, with the capacity to make a merger and acquisition (M&A) splash in the $10 range.

Undoubtedly, it's been a while since Couche-Tard pulled the trigger on a massive deal. The last big deal it made was of CST Brands. Such locations have since been integrated and rebranded. Though Couche has been quiet, it's not from lack of trying.

Management tried (but ultimately failed) to acquire French grocery firm Carrefour in the first half of 2021. The deal was met with skepticism, as Couche-Tard isn't exactly in the business of generic grocery retail. Though it has introduced more fresh food across its convenience stores in recent years, the proposed tie-up was rather confusing to many.

Petro Canada stores up for grabs

Though Couche-Tard has moved on, it really hasn't made a big splash. And its cash hoard could swell as the firm continues moving through a challenging environment. Though Couche has the means to make a big deal, investors shouldn't expect one to happen, unless all the right boxes are checked. Couche's managers put in the due diligence and then some prior to proposed deals. Their ultimate

goal is to create value over the long run.

Looking ahead, Couche looks like it's a frontrunner for Suncor's Petro Canada retail unit. The deal could lie in the $10 billion range and help the firm make use of its solid liquidity position. According to Bloomberg, there's quite a bit of overlap between Petro Canada stores and existing Couche-owned stores. This overlap could prove problematic. Further, there are anti-trust concerns that may make things difficult.

Couche-Tard is already such a dominant force in convenience retail. In any case, don't count on Couche-Tard to run the risk of overpaying for the deal. If there's no steal to be had, it's more than fine with standing pat.

At the end of the day, Couche-Tard is a global player, leaving ample room for M&A at the international level. If anything, the company may wish to expand into the Asian region to improve upon its geographic diversification and returns on invested capital (ROIC).

Bottom line

Couche-Tard is in very capable hands.

The strong balance sheet makes the nearly $60 billion retail behemoth a top bidder for Suncor's prized retail assets. With over $10 billion in acquisition capacity, Couche-Tard may very well be the only realistic buyer. The price tag will be really hard for smaller rivals like **Parkland Fuel** to justify. To make a deal happen, the $5.6 billion Parkland would have to raise astronomical amounts of debt. And I just don't think it's plausible.

The way I see it, Couche may have most of the leverage in a potential Petro Canada deal if federal regulators allow such a deal to happen.

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