Couche-Tard (TSX:ATD): 15 Billion Reasons it's a Must-Buy Stock for 2023

Description

It's been a terrible year for investors, with the stock market plunging into a bear market while offering false hope with the numerous "bear market bounces" or "bull traps" over the past few quarters. We may be in the midst of one right now, with investors on edge over the Fed's ultra-hawkish tone during the Jackson Hole meeting.

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Investors had a bit of hope that the Fed would hint at easing rate hikes or at least consider cuts after accomplishing the mission of crushing inflation. Investors did not get such, inducing a quick 8% correction in the S&P 500. The sustained rally now looks like just another bear bounce.

Despite the broader move lower driven by tech and high-multiple growth stocks, shares of **Alimentation Couche-Tard** (TSX:ATD) have marched steadily higher. That's thanks in part to the company's incredible balance sheet, management's continued patience when it comes to mergers and acquisitions (M&A), and exceptional operations through trying times.

Couche-Tard holding its own

Inflation, labour woes, and all the sort have been the main theme of the year. Couche-Tard has managed through such headwinds in an impeccable fashion. Just look to the company's latest earnings results, which induced a more than 4% pop in the stock, putting it less than $2 away (around 2.2%) from hitting a new all-time high. Indeed, the positive day came on a rather nail-biting day for Wall Street, which ended up narrowly higher after spending most of the session deep in the red.

Couche-Tard is what many smart investors would call a simple-to-understand business that generates predictable free cash flows and solid earnings growth over time. In short, it's a wonderful, albeit a bit boring, business. In times of higher rates, though, boring is beautiful. And the convenience store market is about as dull as it gets. Looking into the future, though, convenience stores could get a heck of a lot more exciting, with frictionless payments, enhanced fresh and hot food offerings, and charging stations for electrified vehicles.

In any case, Couche-Tard is on the right track to reinventing the convenience retail experience. And the numbers really do speak for themselves. Inflation may have taken a bite out of fuel volumes, but “house labels” were a shining star for the firm.

Couche-Tard: US$15 billion to spend as valuations contract in a recession

Management also noted that it has as much as US$15 billion to swing at a big M&A deal. Undoubtedly, the firm has not been active of late, likely because valuations were a tad on the rich side. Like Warren Buffett, Chief Executive Officer Brian Hannasch won’t swing if investors yell at him to do so, as the cash pile builds up. With the global recession on the horizon, Couche-Tard may have a chance to land a home run, as pressure on the world economy mounts.

“I’m hoping the uncertainty that’s out there today does create an environment where we can be acquisitive,” said Hannasch, who also stated his firm is “ready.”

The company can do so many things with US$15 billion to spend. Over the next 18 months, I think the odds of a big deal are high, as the lights dim on economic growth. Once a deal is announced, I expect the stock to soar in anticipation of the rich synergies to be had over the long haul.

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