Momentum Stocks: 1 TSX Winner That Could Keep on Winning

Description

Beginner investors don't need to tune out as the dreaded year 2023 rolls around. Sure, a recession could be up ahead, but it doesn't have to be as painful as the 2008 Great Recession. Most pundits don't expect the next recession to be nearly as bad. It could prove mild and short-lived, but investors should still be ready to take advantage of the opportunities that come their way.

Even in a severe recession, stocks tend to overswing to the downside, as horrific projections scare investors out of their long-term holdings. So, if you can tune out the noise and stick by your long-term investment plan, you can use a recession to turn things in your favour. Nobody knows if 2022 or 2023 will be a red year for markets.

Regardless, you should focus on beating the market's return, rather than trying to maintain a 10-15% target every single year. Like it or not, there are down years, and we're overdue for one! Instead of fretting over your quick losses, think about dollar-cost averaging into the stocks that are still holding their own in the face of strengthening macro storm clouds.

At this juncture, there are a few Canadian momentum stocks that did not get the memo that there's supposed to be a rate-induced recession next year. One is **Alimentation Couche-Tard** (TSX:ATD), a top consumer staple stock at fresh all-time highs. As the tides go out, I think the TSX winner will keep on winning, regardless of what the rest of the market ends up doing over the next two years.

Sure, momentum chasers have a bad taste in their mouths after the 2022 bust in high-growth tech stocks. That said, valuations on Couche-Tard, I believe, are still absurdly low. Further, they've got earnings to back up their multiples. In a higher-rate world, the ability to back up your stock with real earnings matters.

Alimentation Couche-Tard

Alimentation Couche-Tard surged above $60 per share on a strong Monday for the broader market. Indeed, signs of peaking inflation were soothing to investors today. And with a strong quarterly result in the rear-view mirror and a mountain of cash and credit pile to pursue M&A opportunities, Couche-Tard seems like it's finally ready to leave the rest of the TSX behind.

If anything, a recession will be good for the long-term growth profile of Couche-Tard. Its private-label business and fresh food offerings have helped it persevere through difficult times. As fuel prices normalize (they've fallen quite a bit over the past quarter), expect store traffic to overshoot, as consumers look to gobble up the cheaper (but still tasty) private-label brands.

Couche-Tard's managers are absolutely stellar. I've previously noted that they're among the best, not only in the convenience store industry but in Canada. Couche-Tard's return on equity (ROE) is at a respectable 22.5% for a retailer.

Other fuel and convenience retailers have sagged amid recent headwinds. Such firms could be ripe for a takeover, as Couche-Tard looks to make its next deal, with the hopes of getting a steal for investors!

For its first quarter, Couche clocked in $0.85 in EPS (earnings per share), comfortably above the $0.73 consensus. With $18.7 billion revenue rising 14% quarter over quarter, Couche seems ready to get back into growth gear. The last quarter was a sound beat, but I think there are many bigger beats to come, as the remote work trend fades and more people are back on the roads due to cheaper fuel prices.

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Date
2025/09/20

Date Created
2022/09/12
Author
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