



Why Alimentation Couche-Tard Stock Fell 5% in September

Description

Shares of convenience store giant **Alimentation Couche-Tard** ([TSX:ATD](#)) were down just north of 5% over the past month, thanks in part to broader market volatility. Undoubtedly, ATD stock has held its own far better than most names on the **S&P 500**, which sunk nearly 9% in the same time period. Though the **TSX Index** was down by a similar amount, I think Couche-Tard stock is shaping up to be a far better bet as we enter a recession year.

Undoubtedly, few firms have been spared from the broader stock market sell-off. The [bear market](#) has not yet made its way into Canada (the TSX is down around 17% from its highs), but this could change before year's end. As a convenience retailer that's done a magnificent job of preserving margins amid rising fuel costs and fewer visits, I suspect Couche-Tard will be less rattled than others as Canada sinks into negative GDP growth.

Couche-Tard isn't just skilled at driving profits through the most challenging of economic climates; it's a master at passing on value to consumers via its private label. Indeed, private labels have been key to the company's ability to thrive in this period of high inflation.

Helping to elevate Couche-Tard's stock over the past month was strong numbers in Q1 fiscal 2023 (delivered in late August). Per-share earnings of \$0.85 beat the consensus of \$0.73. Revenue also came in at a solid \$18.7 billion, up from \$16.4 billion in the previous quarter. A major bright spot in recent quarters has been the progress of private label merchandise — a key area that could continue to enjoy upside momentum as inflation and stagflation weigh further.

Inflation and stagflation could bolster private label business

As the inflationary environment turns stagflationary, I expect private labels will continue to do the majority of heavy lifting for grocers and convenience retailers like Couche-Tard. In this environment, it's all about getting the most value for your dollar at the convenience store. While Warren Buffett may tout the power of brands, I'd argue that inflation and difficult circumstances for consumers have eroded the power of brands relative to their more generic counterparts.

Indeed, pricier branded consumer-packaged goods have lost a bit of luster amid the private-label push. For example, grocery behemoth Loblaw has done a marvelous job of increasing brand awareness for its President's Choice and No Name brands. Such brands aren't just cheaper products that provide a margin boost for Loblaw. They're an opportunity to really innovate, with intriguing Yuzu-based product offerings. This type of innovation may very well capture consumer interest and subsequently get them hooked on private labels.

Couche-Tard is continuing to challenge branded merchandise with offerings of its own. Thus far, the Circle K brand is a solid competitor among potato chips and other snacks. Now present in more than 26 countries and territories, Circle K has become one of the most widely recognized convenience store brands, known worldwide for quality products. Moving ahead, I anticipate Couche-Tard will continue innovating its private label to make even bigger strides over branded merchandise. On the margins front, Couche-Tard is on the right track.

The bottom line

As a steady earnings grower, I expect Couche-Tard to [take less of a hit](#) than the broader markets. At \$55 and change per share, ATD stock currently trades at 15.2 times trailing price-to-earnings (P/E). That's well [below](#) the five-year historical P/E of 16.6.

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Date

2025/07/03

Date Created

2022/10/03

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