Couche-Tard: How Investors Can Benefit From Its US$15 Billion in Purchasing Power

Description

With central banks raising interest rates to heights not seen in more than a decade, investors should carefully re-evaluate their portfolios, with more value placed on strong balance sheets and profitability prospects. Indeed, growth still matters in an era of higher interest rates. Historically speaking, 3.5–4% rates aren't exactly on the super-high end. Regardless, for investors who've taken 0–1% rates for granted, this kind of higher-rate world is alien territory!

Indeed, speculative tech stocks with a lack of profits have been the hot plays to own since the post-2020 market crash rebound. Profits didn't matter, and neither did valuation to euphoric investors who blindly chased momentum and hot growth stories . SPACs (Special Purpose Acquisition Companies) and red-hot IPOs were the talk of the town. Now, the "sexy" trade has gone bust. The "sexier" the company, the more pain they've likely endured at the hands of Mr. Market in 2022.

On the other side of the spectrum, we have "boring" stocks that didn't participate in the 2021 market surge. It's these such names that are probably outperforming the broader S&P 500 and TSX Index. In times like these, boring stocks are calling the shots.

Couche-Tard: Built to thrive in high-rate environments

One boring stock that actually has exciting long-term growth prospects lies in the retail scene. **Alimentation Couche-Tard** (TSX:ATD) is a global leader in convenience retail, and it's a Canadian firm that's helped enrich many patient investors who've stood by its genius managers over the years.

Indeed, Couche was a founder-run company for so long. Even with the single share class structure, the founders, including Alain Bouchard, remain very active owners of the company. Even though shareholders have more voting power, they know just how smart its managers are, and given the results over the years, I'd be willing to bet that shareholders will let them do what they do best.

CEO Brian Hannasch and his team are masters at the M&A game. They're all about the Warren Buffettstyle of creating value from deals. With the best managers in the business, Couche can also drive more synergies from proposed deals than anybody else.

Despite Couche-Tard's history of consolidating the global convenience store industry, the firm hasn't made many moves in recent years. Though valuations haven't been the best (especially in 2021), I do think management is locked and loaded, with as much as US$15 billion in purchasing power. In a prior piece, I noted that the US$15 billion in purchasing power would grow in time, as the firm continues raking in profits boosted by organic same-store sales growth (SSSG) efforts.

Staying patient as bargains grow more abundant

Like Buffett, Couche-Tard is in no rush. Its enviable liquidity position is a thing of beauty in 2022 or 2023, when cash and credit are harder to come by! Indeed, cash went from being "trash" in 2020-21 to being king. And Couche-Tard may be able to pull off one of its most value-creative deals in history.

As the market sell-off continues, the number of acquisition opportunities will grow. And the odds, I believe, of a huge deal will increase. Whether Couche-Tard breaks into the grocery scene with a historic blockbuster, or opts to stick with convenience stores, I'm a firm believer in management. They know where the puck is headed in the convenience retail scene. And investors should stay patient with the undervalued firm as they examine the potential deals that could be made.

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