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Company Spotlight : Alimentation Couche-Tard Inc. (TSE : ATD-B)

When building a portfolio of assets, investors hold several criteria in mind that guide their investment choices. Company Spotlight aims to dive deeper into the qualities that guide our team's investment decisions. Today, we turn our attention to Alimentation Couche-Tard, the Canadian behemoth of convenience stores, an important part of the Ballard Mudge Financial Group's Canadian Focused Equity portfolio. To elaborate on the value we see in this company and the potential value-added ATD generates for our portfolio and clients, its characteristics will be broken down throughout this analysis.

Couche-Tard's first location opened in Laval, Qc, in 1980. Through a series of acquisitions across Canada in the '80s and '90s, ATD grew to become one of the largest convenience store chains in the country. At the turn of the millennium, Alimentation Couche-Tard took on the American market, most notably through its purchase of Circle K and its subsidiaries. Today, with nearly 15,000 outlets spanning four continents, ATD is one of the world's biggest convenience store operators – benefitting largely from its expansive network's economies of scale and efficiency.

A great way to illustrate how Alimentation Couche-Tard benefits from the edge it acquired over the years is in its return on equity (ROE). This important metric is used to measure the efficiency at which investors' capital is being invested by the company. By dividing the firm's net income by the mean shareholders' equity, we can draw helpful comparisons between ATD and its rivals. As such, with an ROE of 25.1% over the last 12 months, ahead of its Canadian rival Parkland Corp. (TSE: PKI; also part of the CFE portfolio) at 10.2%¹, Couche-Tard demonstrates just how efficient it is at generating profit. Speaking of the investment of capital in ATD, we note the growing importance of its R&D initiatives to increase the efficiency of its retail network. Most notably, Alimentation Couche-Tard recently launched an automated, smartphone-based cashierless outlet in partnership with McGill University – the ultimate aim of which is to implement similar technology in stores across its global network.

Another factor that brings value-added for our clients is ATD's active share repurchase programs. As the Canadian Focused Equity portfolio manager David Mudge [recently argued](#), share buybacks are efficient and tax-friendly ways for stakeholders to earn substantial returns on their investments. In a [recent case](#) for Alimentation Couche-Tard, over \$1B USD of repurchases from the 27th November 2020 to the 23rd of April 2021 were completed, at an average price paid per share of \$31.90 USD. Subsequently, a new round began in April of this year with the intention of repurchasing another 4% of the company's class B subordinate voting shares. Demonstrating even further ATD's commitment to its stakeholders, the firm has been continuously paying dividends for over a decade, with its current yield standing at 0.78%.

An additional notable factor for stakeholders is Alimentation Couche-Tard's seeming dedication to the diversification of its business operations, an increasingly important priority for a company that saw 71% of its revenue (as of 04/26/2020) come from road transport fuel sales. In 2019, the company officially ventured into the world of cannabis retail through a strategic investment in the Fire & Flower banner of retail stores, eyeing an

¹ *EV and Price Multiples calculated using price as of 06/11/21. Data retrieved by Refinitiv Thomson One, sources: Worldscope, IBES.

American market poised to grow significantly as an increasing number of states legalize the consumption of cannabis and its derivatives. More recently, while ATD's attempted purchase of the French grocery giant Carrefour caught investors off-guard and fell through – in part due to government opposition – the move demonstrated the company's leadership's active stance on the diversification of its operations beyond the gasoline retail sector that it heavily depends on today.

At the time of writing, Alimentation Couche-Tard's net profit margin had nearly doubled (6.3%) versus its five-year average (3.5%), albeit their revenue from gasoline sales dropping due to the COVID-19 pandemic. Considering that the net margin is the ratio of net profit to revenue, this points to the fact that each dollar in sales collected in the previous quarters was more profitable to the company than when gasoline represented a greater share of its revenue. Therefore, diversifying their operations away from this high-volume, low-margin sector in favour of higher margin generating activities makes all the more sense. We also find that ATD is particularly well positioned to leverage its expansive network of roadside outlets to develop EV charging facilities, potentially gaining in store traffic and in the average time spent shopping, as well as in subsequent higher-margin sales.

For all these reasons, stakeholders in Alimentation Couche-Tard may rest assured that their investment in the company is a sound one. At a current price of \$45.25 and a dividend yield of 0.78%, First Call rates ATD.B as a buy with earnings per share growth forecasted through 2023. Couche-Tard has been part of the Ballard Mudge Financial Group's Canadian Focused Equity portfolio since its inception in 2018 and has contributed to our clients' growth ever since.

Sincerely,

CIBC Wood Gundy

David Mudge, Portfolio Manager

[Ballard Mudge Financial Group](#)

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Yields/rates are as of June 11th, 2021 and are subject to change without notification. Minimum investment amounts may apply

Alimentation Couche Tard Inc. 12, 2g

Parkland Corporation 2a,2e,2g

12 The equity securities of this company are subordinate voting shares.

2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.

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