



ALIMENTATION COUCHE-TARD (ATD.B.TO)

Business Model

Alimentation Couche-Tard Inc operates a network of convenience stores across North America, Ireland, Scandinavia, Poland, the Baltics, and Russia. The company primarily generates income through the sale of tobacco products, groceries, beverages, fresh food, quick service restaurants, car wash services, other retail products and services, road transportation fuel, stationary energy, marine fuel, and chemicals. Its operation is geographically divided into the U.S., Europe, and Canada. Revenue from external customers falls mainly into three categories: merchandise and services, road transportation fuel, and other.

The Company in a Nutshell

- Couche-Tard offers a blend of growth by acquisition and organic growth as its business model.
- After all of its acquisitions, ATD's balance sheet remains healthy, with a low net debt to capital ratio.
- Things are in place to enable ATD to continue its growth-by-acquisition strategy.

Investment Thesis

In the long-term, dividend payouts should grow in the double digits and investors should see strong stock price growth. ATD's potential is directly linked to its capacity to acquire and integrate additional convenience stores. Management has proven its ability to pay the right price and generate synergies for each acquisition. ATD has a solid dividend triangle: revenue, EPS, and strong dividend growth. The company counts on multiple organic growth vectors such as Fresh Food Fast, pricing & promotion, assortment, cost optimization and network development. ATD is investing massively in super chargers (for EVs) and autonomous cashier to improve customers' experience and reduce exposure to worker shortage.

VALUATION

Dividend Growth Rate Years 1-10: 15.00%

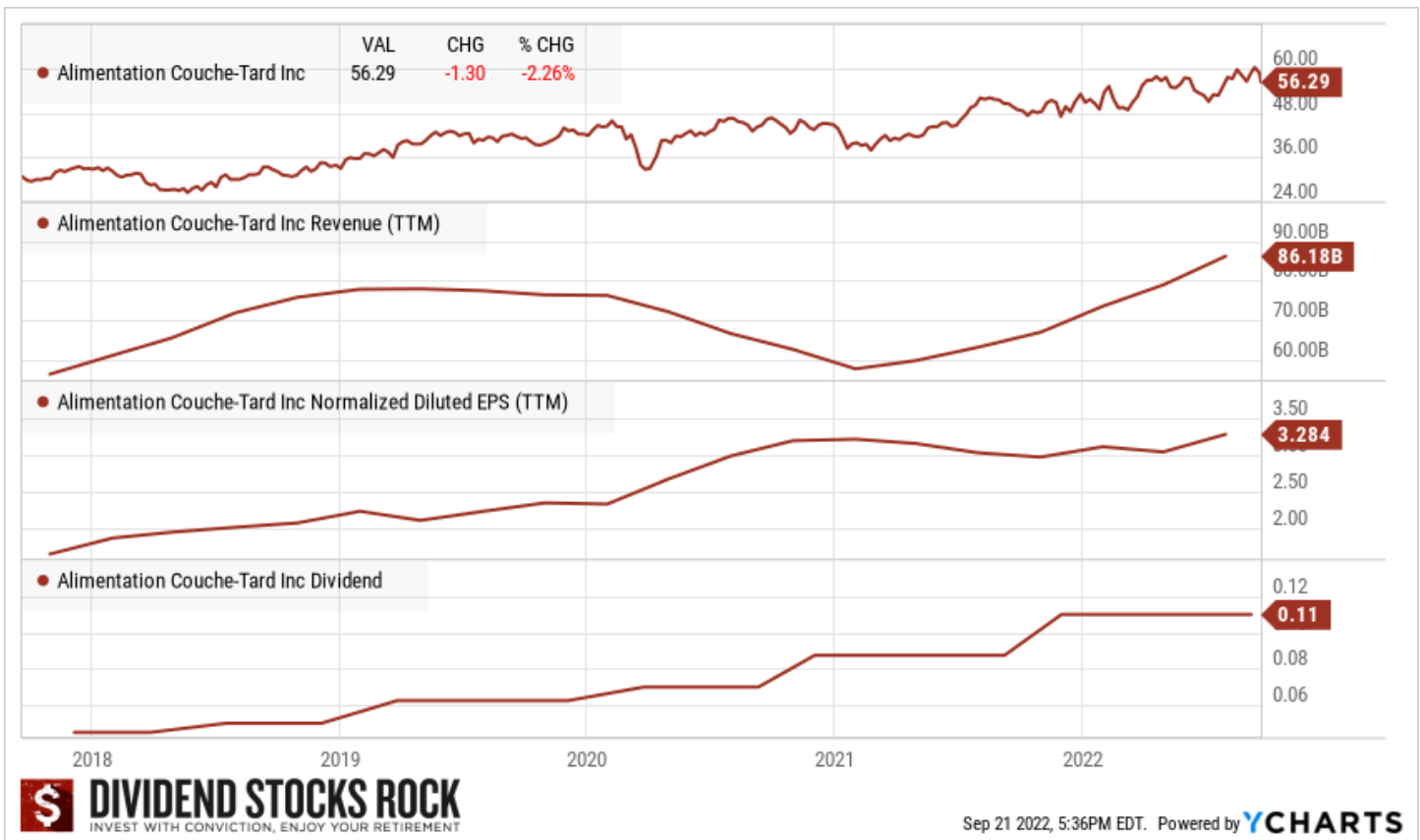
Terminal Dividend Growth Rate: 7.50%

	Discount Rate (Horizontal)		
Margin of Safety	8.00%	9.00%	10.00%
20% Premium	\$280.39	\$91.43	\$53.72
10% Premium	\$257.02	\$83.81	\$49.24
Intrinsic Value	\$233.65	\$76.19	\$44.77
10% Discount	\$210.29	\$68.57	\$40.29
20% Discount	\$186.92	\$60.95	\$35.81



DSR STOCK CARD

09/20/2022



Potential Risks

Growers by acquisition are all vulnerable to occasionally making a bad purchase. While ATD's method of acquiring and integrating more convenience stores has proven successful, it is important for them to not grow too fast or become too eager, leading them to possibly overpay in the name of growth. The company acted in this way when they tried to acquire French grocery store Carrefour. Still, we don't think the next acquisition should be a source of concern with the current management team. Since then, no other deal was on the table and ATD didn't get as many accolades from the market. Investors are also worried about the potential impact of electric vehicles on fuel sales, but we believe ATD will overcome this challenge by installing superchargers.

Dividend Growth Perspective

The mediocre 0.75% dividend yield is so low that ATD shouldn't even be considered a dividend grower. However, the dividend payout has surged in the past 5 years (+144%) and the stock price jumped by over 92% (taking into account the stock price drop in early 2020). The only reason the dividend yield is so low is that ATD is on a fast track to growth. ATD will continue steadily increasing its payout while providing stock value appreciation to shareholders.