

# PALOS

## Palos Weekly Commentary

Issue No. 12 | MARCH 21 2019

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## Palos Funds

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### Alimentation Couche-Tard When Headline Numbers are Misleading

On March 19, 2019 Alimentation Couche-Tard announced (TSX: ATD/B) its 3<sup>rd</sup> quarter results and the headline numbers gave the impression that they missed on EPS, when compared to consensus. In my view, they reported an outstanding quarter. The miss came from fuel margins, and ever since I've been following this stock, analysts have had a difficult time predicting fuel margins. Hence, why I focus on merchandise. On that front ATD/B reported impressive SSSG which was well ahead of consensus, especially in the U.S. The company was able to execute on their promotions, product mixes, and loyalty programs.

When the stock opened on March 20th, 2019 the stock was down 2.5% and quickly recovered. I tried to take advantage of this volatility by shorting some puts, unfortunately we did not get filled. However, these opportunities are exactly what I look for, when it comes to shorting puts.

Meanwhile the company announced a 25% increase in dividend, a NCIB for 4% of Class B shares. This is bringing confidence that ATD/B is probably expecting faster deleveraging, stronger free cash flow, and stronger balance sheet which will allow them to make more strategic acquisitions in the near future. At the same time, they will have the flexibility to become part of the Canadian cannabis market.

*Disclaimer: Palos Funds are shareholders of ATD/B.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.75	10.83%
Palos Equity Income Fund - RRSP	PAL101	\$5.83	9.06%
Palos Merchant Fund L.P. (Dec 31, 2018) <sup>2</sup>	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$7.87	11.22%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019)	PAL300	\$10.49	4.88%
S&P TSX Composite (Total Return with dividends reinvested)			13.54%
S&P 500 (Total Return with dividends reinvested)			13.19%
S&P TSX Venture (Total Return with dividends reinvested)			14.55%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			2.53%
Canadian Government 10-Year			1.67%
Crude Oil Spot			US \$59.83
Gold Spot			US \$1,301.70
US Gov't 10-Year/Moody BAA Corp. Spread			227 bps
USD/CAD Exchange Rate Spot			US \$0.7516

<sup>1</sup> Period ending Mar 20, 2019. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

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