Upheaval in Canada's Grocery Space Continues

Description

Metro (TSX:MRU) announced its 3rd quarter earnings this morning. The company managed to grow EPS at a rate of 8% over the last year's 3rd quarter, despite same-store-sales growth of -0.9% over the same period. Earnings were in-line with analyst estimates, and from a numbers stand point, the report was relatively benign.

More interesting were the corporate developments that Metro announced. In Ontario, the company is planning on either closing or converting 15 of its namesake stores. Although locations weren't disclosed, those stores that aren't set to be shuttered will switch to the company's discount Food Basics banner. The company expects to incur a $40 million charge to go along with these store closings/change overs.

This move is further proof of how tough the Ontario grocery market has become. It also helps illustrate why both **Sobey's** (TSX:EMP.A) and **Loblaw** (TSX:L) have made moves to diversify away from this market, either geographically or by entering a new line of business. Accelerated new store openings in Ontario from the likes of **Wal-Mart** and **Target** (NYSE:TGT) are severely disrupting the landscape for groceries in Canada's most populated province.

The other announcement that was somewhat intriguing from a corporate perspective was that Metro has signed on to operate Target's in-store pharmacies in Quebec. Target plans to open 25 new stores in la belle province, 18 of which are expected to have in-store pharmacies. The first of these 25 is set to open this fall. The addition of 18 pharmacies, which will fly under Metro's Brunet banner, expands Metro's pharmacy footprint by 10%.

Foolish Takeaway

The Metro release provided investors with some good and some bad. Short-term the company appears to be making the appropriate strategic tweaks to remain the steady-as-she-goes type play that it is. Longer term however, one has to wonder if these moves won't have more strategic significance. Could the "prettying" up of the Ontario operations merely be a preliminary step to eventually divest of these assets? Time will tell. One thing that is clear, the Canadian grocery space has become one tough business nut to crack.

Canadian grocers are doing their best to deal with an increasingly competitive environment. The barriers to entry in their business have been toppled by the big U.S. chains. If you're looking for companies that have their barriers to entry firmly intact, **click here now** and we'll send you our special **FREE** report "**3 U.S. Companies That Every Canadian Should Own**".

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Fool contributor Iain Butler does not own shares in any of the companies mentioned at this time. The Motley Fool does not own shares in any of the companies mentioned at this time.

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2. TSX:MRU (Metro Inc.)

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tmfohcanada