



What's Next for Sobeys?

Description

When Sobeys, a division of **Empire Company Limited** ([TSX:EMP.A](#)) announced that it would be buying Safeway, there were certain [conditions attached](#) to the sale by the Federal Competition Bureau. The biggest clause added by the FCB was the requirement to sell 23 locations throughout Western Canada in order to “preserve competition for the retail sale of groceries in Western Canada.”

After months of searching and dealing, Sobeys announced it had come to agreements with three buyers to sell off 30 of its Western Canadian stores for \$430 million. This is a fair price for locations that bring in a combined \$690 million in annual revenues, and earn \$59 million in operating profits.

The parent company of Save on Foods and Price Choppers in Western Canada has stepped up to purchase 15 of the locations, including 10 Safeways, two Sobeys, and three Thrift Foods located in BC and Alberta. All but one of the acquired locations will be rebranded as Save on Foods and all 1,500 employees will be kept.

The other major buyer is Federated Co-op, which has agreed to purchase 14 locations from Sobeys. The locations comprise eight Safeways, five Sobeys and one IGA located in Alberta, Saskatchewan and Manitoba. The stores will begin to be rebranded beginning in April, and all 1,300 employees will be kept.

A final unnamed buyer has also stepped in to purchase the Winnipeg Price Chopper location. Overwaita and Federated Co-op have already received approval from the FCB, while the third buyer has yet to receive its approval.

Foolish bottom line

The bottom line is that these agreements bring Sobeys one step closer to completing its \$5.8 billion purchase of Safeway. This cost of 30 locations is a drop in the bucket compared to the 213 stores purchased from Safeway.

With this issue resolved, attention now turns to Sobeys' commitment to shave another \$200 million

from its books, all the while wrestling with shrinking margins.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:EMP.A (Empire Company Limited)

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