



## Have the “Grocery Wars” Gotten the Best of Metro?

### Description

This is an ominous time for Quebec-based **Metro Inc** ([TSX: MRU](#)). Competition in the Canadian grocery industry is as intense as ever, spurned last year by **Target’s** entry into Canada, and **Walmart’s** continued expansion.

Rivals such as **Loblaw** ([TSX: L](#)) and **Empire** ([TSX: EMP.A](#)) have both made major acquisitions in the past year, leaving Metro in a distant third in the industry. With price competition heating up, the company must feel like it is swimming with sharks by now.

At least this is what the newspapers are saying. But Metro is doing everything it can to prove it can thrive.

### Not a bad quarter

Metro posted decent numbers in the second quarter. Sales grew 1.7% year-over-year, 1.0% on a same-store basis, and the company’s gross margins held steady. While such growth would be very underwhelming for most companies, these numbers were enough to beat analyst expectations.

Metro also raised its quarterly dividend by 20%, to 30 cents. In response, the stock rose by as much as 3.2% on Wednesday.

### Still a safe bet

While the headlines constantly use phrases like “grocery wars”, the reality is that competition is not as fierce as it is in other industries. The Canadian grocery segment is still dominated by three large grocers, and their access to the best real estate has made it difficult for the American challengers to break through. And while there’s practically no growth left in Canadian food retailing, it is not going to suffer during a bad economy.

Metro’s results reflect these realities. The company has earned a return on equity of at least 14% every year for the last 20 years. And over the same time period, Metro has raised its dividend every year (the shares currently yield about 1.8% after the latest increase). Investors looking for a safe place to park

their money should still consider adding this company to their portfolio.

### **Foolish bottom line**

The most recent quarter shows that few companies in Canada can be counted on like Metro. Despite growth numbers that appear weak at first, the company just keeps rolling along — no matter what the “grocery wars” headlines say.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:EMP.A (Empire Company Limited)
2. TSX:L (Loblaw Companies Limited)
3. TSX:MRU (Metro Inc.)

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1. Investing

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