The 3 Most Important Factors You Need to Know About Metro Inc.'s Q4 Report

Description

Metro Inc. (TSX: MRU), one of the largest owners and operators of grocery stores, convenience stores, drugstores, and pharmacies in Canada, released fourth-quarter earnings on November 19 and its stock has reacted by rising over 5% in the days since. Let's take a look at three of the most important statistics and updates provided in the report to determine if we should consider buying into this rally or if we should wait for a better entry point in the trading days ahead.

1) Earnings per share and revenue surpassed expectations

Here's a chart of Metro's earnings per share and revenue results in the fourth quarter compared to what analysts had expected to see and its actual results in the fourth quarter a year ago.

Metric	Reported	Expected	Year Ago
Earnings Per Share	$1.32	$1.27	$0.83
Revenue	$2.71 billion	$2.66 billion	$2.61 billion

Source: Financial Times

Metro's earnings per share increased 59% and its revenue increased 3.8% from the year ago period, as same-store sales climbed by a robust 3.9%. For the full year of fiscal 2014, earnings per share increased 8.5% to $5.13, revenue increased 1.7% to $11.59 billion, and same-store sales increased 1.1% compared to fiscal 2013.

2) EBIT increased over 40% and the EBIT margin expanded

Metro's earnings before interest and taxes (EBIT) increased an impressive 42.9% to $152.8 million and its EBIT margin expanded 150 basis points to 5.6% in the fourth quarter. This growth and expansion can be attributed to total expenses increasing just 2.2% relative to the 3.8% revenue growth achieved. In fiscal 2014, excluding certain items, Metro's EBIT increased 3.3% to $606.4 million and its EBIT margin remained unchanged at 5.2% compared to fiscal 2013.

3) The company generated over $60 million in free cash flow

Lastly, in the fourth quarter, Metro generated $128.5 million in net cash provided by operating activities and invested $62.7 million in capital expenditures, resulting in a healthy free cash flow of $65.8 million. The company utilized this free cash to pay out $25.5 million in dividends and grow its balance of cash and cash equivalents to $36 million. It did not engage in any share repurchase activity. In fiscal 2014, the company generated $241.7 million in free cash flow, which it used to pay out $100.6 million in dividends and repurchase $4.6 million worth of its common stock.

Does Metro represent a long-term investment opportunity?

Metro is home to some of the most popular retail brands in Canada and increased traffic at its stores led it to a very strong financial performance in the fourth quarter and full year of fiscal 2014. Even though the stock has jumped, I think it could head much higher from here, as it still trades at only 15.2 times fiscal 2015's earnings estimates and a mere 13.8 times fiscal 2016's estimates. In my opinion, investors would be well served taking a closer look at Metro and strongly consider initiating long-term positions.

CATEGORY

1. Investing

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1. TSX:MRU (Metro Inc.)

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