Why Metro, Inc. Popped 7% Today

Description

What: Shares of **Metro, Inc.** (TSX:MRU) jumped nearly 7% Tuesday after the grocery giant's quarterly earnings trounced the street's expectations.

For the first quarter ended December 20, the Montreal-based company says its sales were up 5.2% from a year ago, rising to $2.8 billion from $2.7 billion a year earlier. Same-store sales rose 3.8%, the biggest increase since the third quarter of 2009.

More importantly, those revenue gains translated to the bottom line. Metro's adjusted earnings soared 21.6% to $1.35 per share. That was four cents above analyst estimates from *Thomson Reuters*.

So what: Where did those good numbers come from? Acquisitions. Much of this revenue boost came from the company's June purchase of bakery and retailer Première Moisson.

However, there was plenty of organic growth in this report as well. The company benefited from the conversion of some of its Ontario Metro stores into Food Basics discount outlets. This is attracting cost-conscious customers looking to spend less in a stagnant economy.

This report also showed evidence that Metro is becoming a better grocer. We saw a big reduction in inventory shrinkage (industry lingo for products going bad) and a tight grip on growth in organic expenses. This was partly offset by more promotions and margin pressure in meats.

"Building on the momentum of the fourth quarter of 2014, our sales growth was strong and we are pleased with our first quarter results," Metro CEO and president Eric La Fleche said in a press release. "Our merchandising strategies and investments in our retail network are well received by our customers and we are confident that we are well-positioned to continue to grow over the coming quarters."

And this optimism goes beyond press release platitudes. In addition to good earnings results, management also announced a 16.5% dividend hike. The new quarterly payout will rise by five cents to 35 cents per share, a strong vote of confidence in the company's future.

Now what: Business is getting better for grocers. Industry growth is slowing as players close underperforming stores and shift their attention towards optimizing existing locations. That should provide a big margin boost in upcoming quarters.

Target's exit from Canada will also help. The question now is what percentage of the company's 133 leases will be converted into food and pharmacy space. Tough regardless, but all players should benefit from having one less competitor.

We have been expecting competition to start easing in the grocery industry. This report confirms that the worst is over.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)

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rbaillieul