Should You Be a Buyer of Metro Inc. Following its Q1 Earnings Beat?

Description

Metro Inc. (TSX: MRU), one of the largest owners and operators of grocery stores, convenience stores, drugstores, and pharmacies in Canada, released first-quarter earnings on January 27 and its stock has reacted by rising over 3%. Let's take a closer look at the results to determine if we should consider buying into this rally or wait for a better entry point in the trading sessions ahead instead.

Breaking down the quarterly results

Here's a summary of Metro's first-quarter earnings results compared to what analysts had expected and its results in the same period a year ago.

Metric	Reported	Expected	Year Ago
Earnings Per Share	$1.35	$1.31	$1.11
Revenue	$2.84 billion	$2.80 billion	$2.70 billion

Source: Financial Times

Metro's adjusted earnings per share increased 21.6% and its revenue increased 5.2% compared to the first-quarter of fiscal 2014, driven by net income increasing 12.4% to $116.8 million and same-store sales increasing 3.8%, which was its highest same-store sales increase since 2009.

Here's a quick breakdown of eight other important statistics and updates from the report:

1. Adjusted operating profit increased 7% to $190 million.
2. Adjusted operating margin expanded 10 basis points to 6.7%.
3. Opened three net new stores during the quarter.
4. Generated $196.3 million in net cash provided by operating activities and invested just $29.5 million in capital expenditures, resulting in $166.8 million of free cash flow.
5. Repurchased $66.2 million worth of its common stock.
6. Paid out $25.2 million in dividends.
7. Ended the quarter with $195.8 million in cash and cash equivalents, an increase of 443.9% from

the $36 million it began the quarter with.

8. Announced a 16.7% increase to its quarterly dividend to $0.35 per share, and it will be paid out on March 16 to shareholders of record at the close of business on February 18.

Lastly, Metro announced that its Board of Directors approved a 3-for-1 stock split of its common shares in order to increase the number of shares outstanding and “enhance affordability to investors.” The record date of the stock split is February 6 and the payment date of the new shares will be February 11.

Does Metro belong in your portfolio?

Metro is home to several of the most popular retail brands in Canada, and increased traffic at its stores led it to a very strong performance in the first-quarter of fiscal 2015, and its stock has responded accordingly by rising over 3%.

Even after the post-earnings pop in Metro’s stock, I think it represents an intriguing long-term investment opportunity, because it trades at favorable forward valuations, including just 17.4 times fiscal 2015’s estimated earnings per share of $5.78 and only 15.9 times fiscal 2016’s estimates earnings per share of $6.33. Furthermore, the company pays an annual dividend of $1.40 per share, giving its stock a healthy 1.4% yield at current levels, and it has been actively repurchasing its shares, showing that the company is fully dedicated to maximizing shareholder value.

With all of this information in mind, I think Metro Inc. represents one of the best investment opportunities in the highly competitive retail industry today, so long-term investors should take a closer look and consider initiating positions.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)

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