Should You Buy, Sell, or Hold Metro Inc. Today?

Description

Metro Inc. (TSX: MRU), one of the largest owners and operators of grocery stores, convenience stores, drugstores, and pharmacies in Canada, released better-than-expected second-quarter earnings on the morning of April 22, but its stock has responded by falling over 1%. Let's take a thorough look at the results to determine if we should consider using this weakness as a long-term buying opportunity.

Narrowly surpassing analysts' expectations

Here's a summary of Metro's second-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	$0.43	$0.42	$0.36
Revenue	$2.71 billion	$2.67 billion	$2.55 billion

Source: Financial Times

Metro's earnings per share increased 19.4% and its revenue increased 6% compared with the second quarter of fiscal 2014. The company's double-digit percentage increase in earnings per share can be attributed to its net income increasing 15.2% to $111.6 million, helped by total costs of sales and operating expenses increasing just 5.8% and the weighted average number of fully diluted shares outstanding decreasing 4.9% to 253.7 million. Its very strong revenue growth can be attributed to same-store sales increasing 4.5%, and the company noted that this performance was supported by its merchandising strategies and its investments in its store network.

Here's a quick breakdown of five other notable statistics from the report compared to the year-ago period:

1. Operating income before depreciation, amortization, and associate's earnings increased 8.4% to $182.8 million
2. Earnings before income taxes increased 14% to $145.7 million

3. Cash flow from operating activities increased 123.4% to $216.9 million
4. Ended the quarter with $66.7 million in cash and cash equivalents, a decrease of 65.9% from the beginning of the quarter
5. Total assets increased 0.4% to $5.3 billion

Metro also declared a quarterly dividend of $0.117 per share, an increase of 16.7% from the dividend paid in the year-ago period and equal to the dividend it declared in the first quarter of fiscal 2015, and it will be paid out on June 12.

Is Metro the top retail stock to buy today?

I do not think the post-earnings drop in Metro's stock is warranted, and actually represents a very attractive long-term buying opportunity because it trades at inexpensive valuations and has shown a strong dedication to maximizing shareholder value through the payment of dividends.

First, Metro's stock now trades at just 17.7 times fiscal 2015's estimated earnings per share of $1.97 and only 16 times fiscal 2016's estimated earnings per share of $2.18, both of which are inexpensive given its long-term growth rate.

Second, Metro pays an annual dividend of $0.468 per share, which gives its stock a 1.3% yield at today's levels. A 1.3% yield may not seem impressive at first, but it is very important to note that the company has increased its dividend 13 times since 2003, and I think this makes it one of the top dividend-growth plays in the industry today.

With all of the information provided above in mind, I think Metro represents one of the best long-term investment opportunities in the retail industry today. All Foolish investors should take a closer look and strongly consider using the post-earnings weakness to establish positions.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)

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