



Is Metro Inc. a Buy After its Surge of 40% 6 Months Ago?

Description

We all need to eat; we buy groceries from food retailers. Why not invest in food retailers to help cover the grocery bills? **Metro Inc.** ([TSX:MRU](#)) operates a network of over 800 grocery stores in Quebec and Ontario under multiple banners including Metro, Metro Plus, Super C, and Food Basics.

Metro was founded in 1947. Today, it has annual sales of over \$11 billion and a market cap of close to nine billion. The food retailer's mission is to meet real customer needs by offering friendly stores, personalized services, and a wide range of quality products at competitive prices. It also operates more than 250 drugstores.

Since October 2014, Metro has risen from \$25 to today's \$35, rising an impressive 40% in six months. Is it a good time to buy Metro today?

Let's take a look at the business performance and dividend of the company.

Business performance and dividend

For the past 20 years, the grocery store has essentially been growing its earnings in a long-term uptrend. In the past five years, its earnings per share (EPS) grew from \$1.06 to \$1.71, averaging 10% growth per year.

In the same period Metro increased its dividend from \$0.18 per share to \$0.40 per share, averaging 17.3% annual growth.

Although Metro currently only yields 1.3%, it has a 20-year history of growing dividends annually at a double-digit rate on average. Its dividend-growth rates are shown below.

1-YR DGR	3-YR DGR	5-YR DGR	10-YR DGR
20%	17%	17%	14%

The company's dividend policy is to pay dividends representing 20-30% of its net earnings from the previous year. Its 2014 payout ratio was 23% and with earnings expected to grow around 12%, Metro's

dividends should continue growing.

Investing in its business

Between the fiscal years of 2012 and 2014, Metro invested \$844 million in its business. This investment affected 75 stores and resulted in the opening of 22 new stores, the expansion of 12 stores, and the full renovation of 41 stores.

Its stock-buyback program has been effective in that it has been reducing outstanding shares from about 310 million shares in 2011 to today's 251 million shares. Most recently, in 2014 it repurchased seven million shares.

In August 2014 Metro acquired 75% of Première Moisson, the famous Québec-based bakery, which operates 24 bakery stores and three food preparation plants. It also acquired two supermarkets in Ontario and converted them to Food Basics stores.

Should investors buy Metro today?

Metro historically trades at a price-to-earnings ratio (P/E) of 13. Even with the recent higher earnings growth, the shares should be trading close to a P/E of 15. However, today's shares are trading at a multiple of close to 19, about two years ahead of earnings. As a result, I believe Metro shares are expensive today, and investors should wait for a better entry point.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)

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