Which Grocery Store Should You Buy?

Description

Grocery stores are a part of the consumer defensive sector. It doesn't take a rocket scientist to see why: everyone needs to eat. Both **Empire Company Limited** (TSX:EMP.A) and **Metro Inc.** (TSX:MRU) have paid growing dividends for 20 years in a row! Which should you buy?

First, let's take a look at both businesses.

Metro

Metro was founded over 60 years ago and it operates more than 800 grocery stores in Quebec and Ontario under multiple banners, including Metro, Metro Plus, Super C, and Food Basics. It also operates over 250 drugstores.

Currently, it has annual sales of over $11 billion and a market cap close to 8.7 billion.

For the past two decades the grocery store has 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.

Between 2009 and 2014 Metro increased its dividend from $0.18 per share to $0.40 per share, averaging 17.3% annual growth.

The company's dividend policy is to pay out 20-30% of its net earnings from the previous year. Its 2014 payout ratio was 23% and with earnings expected to grow about 12%, Metro's dividends should continue growing at a double-digit rate.

Empire Company

Incorporated in 1963, Empire Company is headquartered in Nova Scotia. It has annualized sales over $24 billion and a market cap close to 8.4 billion.

Other than food retailing through wholly owned subsidiary Sobeys Inc., Empire's key businesses also include a 41.5% equity accounted interest in Crombie REIT, a retail real estate investment trust, as well as equity interests in residential real estate through Genstar.

There are Sobeys in every province of Canada. In total there are about 1,500 Sobeys' retail stores and 350 retail fuel locations.

For the past two decades the grocery store has been growing its earnings in a general uptrend. Its EPS grew from $3.99 in 2009 and is expected to reach $5.58 by the end of fiscal year 2015, averaging 5.75% growth per year.

Between 2009 and 2014, Empire increased its dividend from $0.70 per share to $1.05 per share, averaging 8.5% annual growth.

Which should you buy?

If you are looking to add to a grocery store to increase the defensiveness of your portfolio, Empire is priced cheaper at a lower multiple of 16, while Metro is more expensive at a multiple of over 18. That said, historically, Metro has shown stronger earnings growth, leading to higher dividend growth, so its higher multiple maybe warranted.

Metro also has lower debt levels with a debt-to-cap ratio of 26% compared with Empire's 31%. Personally, I would wait for further dips from Metro before buying, or wait for earnings to catch up because I want to go with the best of the best, unless the other one is priced at a discount. At best, I believe Empire is only priced fairly today compared with its historical multiple.

Further, it depends on whether investors want to gain exposure to retail real estate and residential real estate through Empire. If investors would like to gain exposure, I would suggest looking at individual, publicly traded retail and residential real estate investment trusts and selecting the best fit for your needs, whether that be high income, high growth, or a blend of both.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMP.A (Empire Company Limited)
2. TSX:MRU (Metro Inc.)

Category

1. Dividend Stocks
2. Investing

Date
2025/07/08
Date Created
2015/05/27
Author
kayng