3 Reasons to Add Metro Inc. to Your Portfolio Today

Description

Metro Inc. (TSX:MRU), one of Canada's largest owners and operators of grocery stores, convenience stores, and pharmacies, has posted a very strong performance in 2015, rising over 9% while the TSX Composite Index has returned just over 3%, and I think it could head much higher from here. Let's take a look at three of the primary reasons why I think this could happen and why you should be a long-term buyer of the stock today.

1. Double-digit earnings growth to support a near-term rally

Metro released better-than-expected second-quarter earnings results on the morning of April 22, but its stock has responded by falling about 4% in the weeks since. Here's a summary of eight of the most notable statistics from the report compared with the year-ago period:

1. Net income increased 15.2% to $111.6 million
2. Earnings per share increased 19.4% to $0.43, surpassing analysts' expectations of $0.42
3. Revenue increased 6% to $2.71 billion, surpassing analysts' expectations of $2.67 billion
4. Same-store sales increased 4.5%
5. Operating income before depreciation, amortization, and associate's earnings increased 8.4% to $182.8 million
6. Earnings before income taxes increased 14% to $145.7 million
7. Cash flow from operating activities increased 123.4% to $216.9 million
8. Ended the quarter with $66.7 million in cash and cash equivalents, a decrease of 65.9% from the beginning of the quarter

2. Its stock trades at attractive forward valuations

At today's levels Metro's stock trades at just 17.2 times fiscal 2015's estimated earnings per share of $1.98 and only 15.4 times fiscal 2016's estimated earnings per share of $2.20, both of which are very inexpensive compared with the industry average price-to-earnings multiple of 24.9.

I think Metro's stock could consistently command a fair multiple of at least 20, which would place its shares upwards of $39.50 by the conclusion of fiscal 2015 and around $44 by the conclusion of fiscal

2016, representing upside of more than 16% and 29%, respectively, from current levels.

3. An extensive track record of dividend increases

Metro pays a quarterly dividend of $0.117 per share, or $0.468 per share annually, which gives its stock a 1.4% yield at today's levels. Investors should also note that the company has increased its dividend 13 times in the last 13 years, making it one of the top dividend-growth plays in the retail industry today.

Is there a place for Metro in your portfolio?

I think Metro could be one of the top performing retail stocks going forward because it has the support of double-digit second-quarter earnings growth, its stock trades at inexpensive forward valuations, and because it has a 1.4% dividend yield with a long track record of increasing its annual payment. All Foolish investors should strongly consider establishing positions today.

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1. Dividend Stocks
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1. TSX:MRU (Metro Inc.)

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jsolitro