



Loblaw Companies Limited or Metro Inc.: Which Retailer Should You Buy?

Description

Loblaw Companies Limited ([TSX:L](#)) and **Metro Inc.** ([TSX:MRU](#)) are two of the largest owners and operators of grocery stores and pharmacies in Canada. Both stocks represent very attractive long-term investment opportunities today, but the laws of diversification state that we cannot own both, so let's take a closer look at the companies' most recent quarterly releases, their stocks' valuations, and their dividend yields to determine which one represents the better buy today.

Loblaw Companies Limited

Loblaw's stock has risen over 2% year-to-date and it has risen over 3% since it announced better-than-expected first-quarter earnings results on the morning of May 6. Here's a summary of eight of the most notable statistics from the report compared with the year-ago period:

1. Adjusted net income increased 96.7% to \$301 million
2. Adjusted earnings per share increased 35.2% to \$0.73, surpassing analysts' expectations of \$0.68
3. Revenue increased 37.8% to \$10.05 billion, surpassing analysts' expectations of \$9.45 billion
4. Food retail same-store sales increased 4.0%
5. Same-store sales increased 3.1% at Shoppers Drug Mart
6. Adjusted earnings before interest, taxes, depreciation, and amortization increased 63.7% to \$789 million
7. Adjusted operating income increased 89.2% to \$543 million
8. Free cash flow increased \$426 million to \$144 million

At today's levels Loblaw's stock trades at 18 times fiscal 2015's estimated earnings per share of \$3.54 and 15.6 times fiscal 2016's estimated earnings per share of \$4.07, both of which are inexpensive compared with the industry average price-to-earnings multiple of 23.5.

In addition, Loblaw pays a quarterly dividend of \$0.25 per share, or \$1.00 per share annually, giving it stock a 1.6% yield at today's levels. A 1.6% yield may not impress you at first, but it is very important to note that the company has increased its annual dividend payment for four consecutive years, and its

increased amount of free cash flow could allow this streak to continue for the next several years.

Metro Inc.

Metro's stock has risen over 11% year-to-date, but it has fallen about 1% since it released better-than-expected second-quarter earnings results on the morning of April 22. 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. Gross margin expanded 40 basis points to 19.9%
6. Operating income before depreciation, amortization, and associate's earnings increased 8.4% to \$182.8 million
7. Earnings before income taxes increased 14% to \$145.7 million
8. Cash flow from operating activities increased 123.4% to \$216.9 million

At current levels Metro's stock trades at 17.5 times fiscal 2015's estimated earnings per share of \$1.98 and 15.8 times fiscal 2016's estimated earnings per share of \$2.20, both of which are inexpensive compared with the industry average price-to-earnings multiple of 23.5.

Additionally, Metro pays a quarterly dividend of \$0.117 per share, or \$0.468 per share annually, giving its stock a 1.35% yield at today's levels. Like Loblaw's 1.6% yield, Metro's 1.35% yield may not impress you at first, but it is very important to 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 market today.

Which retailer represents the better buy today?

After comparing the companies' most recent quarterly reports, their valuations, and their dividend yields, I think Loblaw represents the better long-term investment opportunity today. Both companies trade at very attractive forward valuations, but Loblaw grew at a much higher rate in its most recent quarter and it has a higher dividend yield, so I think it is the winner of this match-up. Long-term investors should take a closer look and strongly consider initiating positions today.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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2. TSX:MRU (Metro Inc.)

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Date

2025/08/24

Date Created

2015/06/08

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