Should You Buy Empire Company Limited Before its Wednesday Earnings Report?

Description

Empire Company Limited (TSX:EMP.A) has been trading in a tight sideways range since the start of the year. Actually, its price went ahead of its earnings and the earnings is playing catch-up with the price.

Empire Company is reporting its fourth-quarter earnings results on Wednesday, and analysts will be looking for further signs of growth. Should you buy it today? First, let's take a look at its business.

The business

Empire Company is based in Nova Scotia and was incorporated in 1963. Not only does it own a food retailing business, but it also owns real estate properties.

Empire Company wholly owns Sobeys, conducting business through roughly 1,500 retail stores and 350 retail fuel locations. Further, Empire owns almost 42% interest in **Crombie REIT**, a retail real estate investment trust, as well as about 41% interest in Genstar, which owns residential real estate properties.

REITs are well known for their high yields and investors can get better yields by investing in them directly. For example, you could choose to buy Crombie for its 7% yield if you wanted retail REIT exposure in your portfolio.

If you decide to invest in Empire Company instead, then you aren't doing it for the income, but for its growth, since Empire starts you off with a 1.2% yield.

Sales growth, earnings growth, and valuation

From 2011 to 2014 Empire Company's sales grew at an increasing rate. If its growth were to show any signs of slowing down, its share price might decline.

Year Sales Growth

2011 –
2012 1.8%
2013 7.1%
2014 20%

Also, the company trades roughly at a multiple of 16 at about $91 per share. If earnings estimates aren't met, Empire's multiple would likely contract, and its share price would go down with it.

In the past the company has traded around the multiple of 13.6, which would indicate a share price under $79 per share, which I think would be a fairer price seeing that its earnings growth is increasing at a rate of 7-12% per year.

Should you buy Empire Company?

I'm not encouraging the timing of the market, but around earnings report time the market can get especially emotional about a company. Companies could go up or down 10% in one day.

Investors who want to buy the company now could act cautiously by buying half a position now, and then finish off the position after the earnings report. If you plan to buy $5,000 in Empire, you can buy $2,500 worth of it today, and buy more after the earnings report.

If the earnings report is good and the price goes up, it means the company is doing better than expected. If not, then you might be able to spend that same $2,500 and buy more shares at a lower price.

Still, recent history shows that Empire is trading at an expensive multiple, and investors should wait for a better price.

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1. TSX:EMP.A (Empire Company Limited)

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