3 Reasons Why You Should Buy Empire Company Limited Right Now

Description

Empire Company Limited (TSX:EMP.A), one of the largest owners and operators of grocery stores in Canada, has watched its stock remain relatively flat in 2015, but I think it could be one of the market's top performers over the next several years. Let's take a look at three of the primary reasons why this could happen and why you should be a long-term buyer today.

1. Double-digit growth in fiscal 2015 to support a near-term rally

After the market closed on June 24, Empire released very strong earnings results for its fiscal year ending on May 2, 2015, but its stock has responded by making a slight move to the downside in the trading sessions since. Here's a breakdown of eight of the most notable statistics from the annual report compared with fiscal 2014:

1. Adjusted net earnings from continuing operations increased 32.6% to $518.9 million
2. Adjusted earnings per share from continuing operations increased 15.2% to $5.62
3. Revenue increased 14.2% to $23.93 billion
4. Sobeys's same-store sales, excluding fuel sales, increased 1.9%
5. Sobeys's same-store sales, including fuel sales, increased 1.4%
6. Adjusted earnings before interest, taxes, depreciation, and amortization increased 25.8% to $1.33 billion
7. Operating income increased 126.4% to $743.6 million
8. Free cash flow increased 65% to $1.44 billion

2. Its stock trades at inexpensive current and forward valuations

At today's levels, Empire's stock trades at just 15.7 times fiscal 2015's adjusted earnings per share of $5.62, only 14.2 times fiscal 2016's estimated earnings per share of $6.20, and a mere 13.2 times fiscal 2017's estimated earnings per share of $6.67, all of which are inexpensive compared with the industry average price-to-earnings multiple of 24.9.

I think Empire's stock could consistently command a fair multiple of at least 16, which would place its shares upwards of $99 by the conclusion of fiscal 2016 and upwards of $106 by the conclusion of fiscal 2017, representing upside of more than 12% and 20%, respectively, from current levels.

3. 20 consecutive years of dividend increases

Empire pays a quarterly dividend of $0.30 per share, or $1.20 per share annually, giving its stock a 1.4% yield at today's levels. A 1.4% yield may not seem very impressive at first, but it is very important to note that the company has increased its annual dividend payment for 20 consecutive years, making it one of the top dividend-growth plays in the market today, and its increased amount of free cash flow could allow this streak to continue for another decade at least.

Is there a place for Empire in your portfolio?

I think Empire could generate significant returns for investors going forward. Its double-digit growth in fiscal 2015 could support a near-term rally, its stock trades at inexpensive current and forward valuations, and it has increased its dividend for 20 consecutive years with a current yield of approximately 1.4%. Foolish investors should strongly consider making it a core holding today.

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

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