3 Reasons Why Metro Inc. Should Be Atop Your Buy List

Description

Metro Inc. (TSX:MRU), one of Canada's largest owners and operators of grocery stores, convenience stores, and pharmacies, has widely outperformed the overall market in 2015, rising over 11% as the TSX Composite Index has fallen about 7%, and I think it will continue to do so in both the short and long term. Let's take a look at three of the primary reasons why I think this will happen and why you should be a long-term buyer of the stock today.

1. Its strong financial results could support a quick rebound

On the morning of August 12, Metro released very strong earnings results for its three and nine-month periods ending on July 4, 2015, but its stock has responded by falling about 5% in the weeks since, primarily due to the downturn in the market. Here's a summary of eight of the most notable statistics from the first nine months of fiscal 2015 compared with the same period in fiscal 2014:

1. Adjusted net income increased 31.5% to $391.9 million
2. Adjusted earnings per share increased 19.7% to $1.52
3. Revenue increased 5.8% to $9.39 billion
4. Gross margin expanded 50 basis points to 19.6%
5. Adjusted operating income before depreciation, amortization, and associate's earnings increased 8.5% to $650.4 million
6. Earnings before income taxes increased 12% to $508 million
7. Cash flow from operating activities increased 41.4% to $430.3 million
8. Weighted average number of fully diluted shares outstanding decreased 5.3% to 252.5 million

2. Its stock trades at inexpensive forward valuations

At current levels, Metro's stock trades at just 17.1 times fiscal 2015's estimated earnings per share of $2.03 and only 15.5 times fiscal 2016's estimated earnings per share of $2.24, both of which are inexpensive compared with the industry average price-to-earnings multiple of 27.3 and its long-term growth potential.

I think Metro's stock could consistently command a fair multiple of at least 20, which would place its shares upwards of $40 by the conclusion of fiscal 2015 and upwards of $44 by the conclusion of fiscal 2016, representing upside of more than 15% and 26%, respectively, from today's levels.

3. It has increased its dividend for 20 consecutive years

Metro pays a quarterly dividend of $0.117 per share, or $0.468 per share annually, which gives its stock a 1.35% yield at today's levels. It is also very important to note that the company has increased its annual dividend payment for 20 consecutive years, and its strong operational performance and low payout ratio could allow this streak to continue for the foreseeable future.

Does Metro belong in your portfolio?

I think Metro will continue to be one of the market's top performing stocks, because its strong financial results in fiscal 2015 could support a near-term rally, because its stock trades at very inexpensive forward valuations, and because it is one of the top dividend-growth plays in the market today, which will continue to make it popular with investors. All Foolish investors should take a closer look and consider making it a core holding.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)

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