Is Now the Prime Time to Buy Empire Company Limited?

Description

Empire Company Limited (TSX:EMP.A), one of the largest owners and operators of grocery stores in Canada, announced first-quarter earnings results after the market closed on September 9, and its stock has responded by falling over 11.5% in the trading sessions since. Let's take a closer look at the results to determine if this weakness represents a long-term buying opportunity, or a warning sign.

The results that ignited the sell-off

Here's a summary of Empire's first-quarter earnings results compared with its results in the same period a year ago.

Metric	Q1 2016	Q1 2015
Adjusted Earnings Per Share	$1.32	$1.40
Revenue	$6.25 billion	$6.22 billion

Source: Empire Company Limited

Empire's adjusted earnings per share decreased 5.7% and its revenue increased 0.4% compared with the first quarter of fiscal 2015. The company noted that its slight decline in earnings per share could be attributed to several factors, including its closing of 42 stores over the last year, lower wholesale food volumes as a result of the loss of wholesale customers, and the economic downturn as a result of low oil prices. It also noted that its slight increase in revenue could be attributed to food inflation and its acquisition of Co-op Atlantic, which closed in June 2015.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Sobeys same-store sales, excluding fuel sales, increased 1.2%
2. Sobeys same-store sales, including fuel sales, increased 0.5%
3. Gross profit decreased 1.9% to $1.52 billion
4. Adjusted earnings before interest, taxes, depreciation, and amortization decreased 5.1% to

$325.2 million
5. Free cash flow decreased 33.6% to $216.8 million
6. Operating income decreased 10.9% to $195.5 million

Empire also announced that it will be maintaining its quarterly dividend of $0.30 per share, and the next payment will come on October 30 to shareholders of record at the close of business on October 15.

Should you buy or avoid Empire’s stock on the dip?

It was a weak quarter overall for Empire, so I think the market has responded correctly by sending its shares lower. However, I also think the post-earnings drop represents a great long-term buying opportunity, because its stock now trades at very attractive valuations and because it is one of the top dividend-growth plays in the market today, which will amplify the potential returns for investors going forward.

First, Empire’s stock trades at just 13.5 times fiscal 2016’s estimated earnings per share of $6.01 and only 12.4 times fiscal 2017’s estimated earnings per share of $6.52, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 15 and the industry average multiple of 26.8.

Second, Empire pays an annual dividend of $1.20 per share, which gives its stock a 1.5% yield at today’s levels. A 1.5% yield may not impress you at first, but it is very important to note that the company has increased its dividend for 20 consecutive years, which shows that it is strongly dedicated to maximizing shareholder value.

With all of the information above in mind, I think Empire is one of the top value and dividend-growth plays in the market today. Foolish investors should take a closer look and strongly consider using the post-earnings weakness to begin scaling in to long-term positions.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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