Should Investors Buy Empire Company Ltd. After its Disappointing Quarterly Results?

Description

Recent quarterly results from **Empire Company Ltd.** (TSX:EMP.A) disappointed the market, causing its stock to drop by almost 9% for the year-to-date. Despite some of the bad news contained in those results along with Canada having fallen into a technical recession, Empire Company remains an attractive acquisition for investors at this time.

Let me explain.

Now what?

Empire Company owns Canada's second-largest grocery chain, Sobeys, and continues to focus on expanding the footprint of its business through acquisitions. These include the purchase of Canada Safeway in 2013 and the closing of the purchase of Co-op Atlantic's food and fuel business during the fiscal first quarter 2016 for $24.5 million. This latest transaction added five full-service grocery stores and fuel stations to Empire Company's store footprint.

However, it is clear that the oil rout and Canada's weak economy are having a sharp impact on Empire Company's performance.

Both adjusted EBITDA and adjusted net earnings dropped by 5% and 6%, respectively, for the fiscal first quarter 2016 when compared with the same period in 2014, although sales did grow by 0.4% for the same period.

The decline in its financial performance can be attributed to the economic downturn associated with the sharp collapse in oil prices. Then there were the impacts of the increased restructuring costs associated with the ongoing integration of Canada Safeway.

Nonetheless, Empire Company remains focused on completing the integration of Canada Safeway and is using this to drive operating synergies and reduce costs over the long term. This and the reorganization of its distribution network bodes well for its future financial performance with costsavings set to boost its net earnings on completion.

More importantly, despite the economic downturn affecting Empire Company's financial performance during the quarter, demand for its products will remain relatively strong. Grocery, pharmacy and fuel outlets sell consumer staples that people are unable or unwilling to cut out of their budgets regardless of their financial situation.

As a result, this will help to shield its earnings from any further economic weakness and decline in consumer sentiment.

It will also continue to support the sustainability of Empire Company's dividend, which the company has hiked every year for the last 20 straight years. This now gives it a modest but sustainable 1.5% yield that will continue to reward patient investors as they wait for the Canadian economy to recover and Empire Company's earnings to grow.

So what?

The recent decline in Empire Company's stock price leaves it attractively priced, creating an entry point for investors seeking to increase their exposure to Canada's second-largest grocery retailer. It will also continue to be an attractive income-producing defensive hedge for investors because the non-cyclical nature of its core business protects its earnings.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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