Metro Inc.’s Q4 EPS Rises 18.2%: Is Now the Time to Buy?

Description

Metro Inc. (TSX:MRU) is one of the largest owners and operators of grocery stores, convenience stores, drugstores, and pharmacies in Canada, and it announced fourth-quarter earnings results before the market opened on November 18. Its stock responded by making a slight move to the upside in the day’s trading session, so let’s take a closer look at the quarterly results and the fundamentals of the stock to determine if it could continue higher from here and if you should be a long-term buyer.

The results that came in mixed compared to expectations

Here’s a summary of Metro’s fourth-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Q4 2015 Actual	Q4 2015 Expected	Q4 2014 Actual
Earnings Per Share	$0.52	$0.51	$0.44
Revenue	$2.83 billion	$2.84 billion	$2.71 billion

Source: Financial Times

Metro’s earnings per share increased 18.2% and its revenue increased 4.5% compared with the fourth quarter of fiscal 2014. The company’s double-digit percentage earnings-per-share growth can be attributed to its net earnings increasing 13.9% to $131.7 million and its weighted-average number of fully diluted shares outstanding decreasing 3.9% to 246.6 million.

Its very strong revenue growth can be attributed to its same-store sales increasing 3.4%, and it credited this performance to its “customer-first strategies” and its investments in its retail network.

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

1. Gross profit increased 8.2% to $565.7 million
2. Gross margin improved 70 basis points to 20%

3. Operating income before depreciation, amortization, and associate's earnings increased 10.1% to $207.4 million
4. Operating margin improved 40 basis points to 7.3%
5. Cash flow from operating activities increased 92.7% to $248 million
6. Quarterly dividend declared increased 16.7% to $0.117 per share

Can the stock continue higher from here?

It was a great quarter overall for Metro, so I think its stock has responded correctly by rising. I also think this could be the start of a sustained rally higher and that the stock represents a very attractive long-term investment opportunity today, because it still trades at inexpensive forward valuations and because it is one of the top dividend-growth plays in the market.

First, Metro's stock still trades at just 18.7 times fiscal 2015's adjusted earnings per share of $2.03 and only 16.9 times fiscal 2016's estimated earnings per share of $2.24, both of which are inexpensive given its 11.7% long-term growth rate and the industry average price-to-earnings multiple of 28.7.

I think Metro's stock could consistently trade at a fair multiple of at least 20, which would place its shares upwards of $44.75 by the conclusion of fiscal 2016, representing upside of more than 17% from today's levels.

Second, Metro pays a quarterly dividend of $0.117 per share, or $0.468 per share annually, which gives its stock a 1.2% yield. This yield may not seem impressive at first glance, but it is very important for investors to note that it has raised its annual dividend payment for 21 consecutive years, and its strong operational performance and low payout ratio could allow this streak to continue in 2016.

With all of the information provided above in mind, I think Metro represents one of the top value and dividend-growth plays in the market today. All Foolish investors should consider beginning to scale in to long-term positions over the next couple of weeks.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)

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