4 Reasons to Make Metro Inc. a Core Holding in Your Portfolio

Description

Metro Inc. (TSX:MRU), one of Canada's largest owners and operators of grocery stores, convenience stores, and pharmacies, has been one of the top performing stocks in the S&P/TSX 60 Index in 2015. It has risen more than 24%, and I think it will continue to do so in both the short and long term. Let's take a look at four of the primary reasons why I think this will happen and why you should buy the stock today.

1. Its strong growth in fiscal 2015 could support a continued rally

On the morning of November 18, Metro released very strong earnings results for its fiscal year that ended on September 26, 2015. Here's a summary of eight of the most notable statistics from fiscal 2015 compared with fiscal 2014:

1. Adjusted net earnings increased 13.6% to $523.6 million
2. Adjusted fully diluted earnings per share increased 18.7% to $2.03
3. Revenue increased 5.5% to $12.22 billion
4. Same-store sales increased 4%
5. Adjusted operating income before depreciation, amortization, and associate's earnings increased 8.9% to $857.8 million
6. Adjusted operating margin improved 20 basis points to 7%
7. Cash flow from operating activities increased 56.6% to $678.3 million
8. Weighted-average number of fully diluted shares outstanding decreased 5% to 251.2 million

2. It is a value play

At today's levels, Metro's stock trades at just 16.9 times fiscal 2016's estimated earnings per share of $2.29 and only 15.4 times fiscal 2017's estimated earnings per share of $2.51, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 19.9 and the industry average multiple of 28.8.

With the multiples above and its estimated 10.8% long-term growth rate in mind, I think Metro's stock could consistently trade at a fair multiple of at least 20, which would place its shares upwards of $50 by the conclusion of fiscal 2017, representing upside of more than 29% from current levels.

3. It has been repurchasing its shares

Metro has been actively repurchasing its shares, including the repurchase of 11.93 million shares of its common stock for a total cost of approximately $381.1 million under a normal course-issuer-bid program that ran from September 10, 2014 to September 9, 2015.

Also, the company renewed its normal course-issuer-bid program on September 8, and this will allow it to repurchase up to 18 million shares of its common stock, or approximately 9.5% of its outstanding public float, beginning on September 10, 2015 and ending on September 9, 2016.

These repurchases will help boost Metro's earnings-per-share growth going forward, while also making its remaining shares more valuable.

4. It is one of the market's top dividend-growth plays

Metro pays a quarterly dividend of $0.117 per share, or $0.468 per share annually, giving its stock a 1.2% yield. This very small yield may not impress you at first, but it is very important for investors to note that the company has raised its annual dividend payment for a 21 consecutive years, making it one of the top dividend-growth plays in the market today, and its strong financial performance could allow this streak to continue in 2016.

Should you add Metro to your portfolio?

Metro represents one of the best long-term investment opportunities in the market today, so all Foolish investors should take a closer look and strongly consider beginning to scale in to positions.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)

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