



## Empire Company Limited's Q2 Profit Falls 12.6%: What Should You Do Now?

### Description

**Empire Company Limited** ([TSX:EMP.A](#)), one of the largest owners and operators of grocery stores in Canada, announced mixed second-quarter earnings results after the market closed on December 9, and its stock responded by falling over 1% in the trading session that followed.

The stock now sits more than 19% below its 52-week high of \$31.98 reached back on February 24, so let's take a closer look at the quarterly results and the fundamentals of the stock to determine if we should consider using this weakness as a long-term buying opportunity, or if we should wait for an even better entry point in the days ahead.

### Breaking it all down

Here's a summary of Empire's second-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Q2 2016 Actual	Q2 2016 Expected	Q2 2015 Actual
Adjusted Earnings Per Share	\$0.40	\$0.43	\$0.46
Revenue	\$6.06 billion	\$6.05 billion	\$6.00 billion

*Source: Financial Times*

Empire's adjusted earnings per share decreased 13% and its revenue increased 1.1% compared with the second quarter of fiscal 2015. The company noted that this weak performance could be attributed to continued challenges associated with its acquisition of Safeway Canada as well as an overall negative customer reaction to its operational challenges and a "difficult economy in the west."

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Adjusted net earnings decreased 12.6% to \$110.7 million
2. Sobeys same-store sales, excluding fuel sales, increased 0.9%

3. Sobeys same-store sales, including fuel sales, increased 0.1%
4. Gross profit decreased 0.5% to \$1.47 billion
5. Adjusted earnings before interest, taxes, depreciation, and amortization decreased 8.2% to \$303.7 million
6. Operating income decreased 33.2% to \$136 million
7. Cash flows from operating activities decreased 25% to \$135.8 million
8. Reported a cash use of \$15.9 million compared to free cash flow of \$140 million in the year-ago period
9. Repurchased 5.37 million shares of its class A non-voting shares for a total cost of approximately \$148.1 million, completing the normal course issuer bid that it announced on March 12
10. Weighted-average number of diluted shares outstanding decreased 0.5% to 275.5 million

Empire also announced that it will be maintaining its quarterly dividend of \$0.10 per share, and the next payment will come on January 29, 2016 to shareholders of record at the close of business on January 15, 2016.

### **Should you buy Empire's stock on the dip?**

It was a disappointing quarter overall for Empire, so I think the market responded correctly by sending its stock lower. With this being said, I think the drop also represents an attractive long-term buying opportunity, because the stock now trades at very inexpensive valuations and because it is a dividend-growth play.

First, Empire's stock now trades at just 14.8 times fiscal 2016's estimated earnings per share of \$1.74 and only 12.8 times fiscal 2017's estimated earnings per share of \$2.01, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 15.2 and the industry average multiple of 27.

I think Empire's stock could consistently trade at a fair multiple of at least 15, which would place its shares upwards of \$30 by the conclusion of fiscal 2017, representing upside of more than 16% from today's levels.

Second, Empire pays an annual dividend of \$0.40 per share, which gives its stock a 1.6% yield. This small yield may not seem like much at first, but it is very important for investors to note that the company has raised its annual dividend payment for 20 consecutive years, making it one of the market's top dividend-growth plays.

With all of the information provided above in mind, I think Foolish investors should strongly consider using the post-earnings weakness in Empire's stock to begin scaling in to long-term positions.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

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**Date**

2025/09/07

**Date Created**

2015/12/11

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