Metro, Inc.: A Perfect Boring Stock for Today's Tumultuous Markets

Description

Wednesday was an interesting day for Canadian investors.

The TSX Composite Index started the day off in the red–down almost 200 points. The morning saw continued weakness. By the time the mid-point of the trading day rolled around, Canada's benchmark stock index was down as much as 450 points, or a little less than 4%.

Things improved considerably from there. The TSX Composite rallied all the way back up to 11,927 at one point, which pared the losses back to less than 1%. At the end of the day the market settled at 11,843 points, good enough for a 1.3% decline.

That seems to be the norm in today's markets. Investors are almost bipolar, sending stocks either soaring or reeling on small pieces of news. Ultimately, at least lately, stocks end the day lower. These losses have led to some serious declines in overall markets.

It's only natural for long-term investors to get a little spooked when stocks keep going down. My advice is instead of second guessing yourself, take this opportunity to buy solid companies that will make it through this downturn unscathed.

Metro, Inc. (TSX:MRU) is one such company. Here are three reasons why it belongs in your portfolio.

Proven outperformance

Metro is a proven performer during volatile times.

In early 2008 shares of Canada's third-largest grocer fell to a split-adjusted level of $7.50 per share. A year later than the company had rallied to nearly $13 per share, good enough for a gain of more than 40%.

You might remember that year as one of the worst in the history of the markets. During the same time period the TSX Composite fell more than 32%. That is a massive victory for Metro shareholders.

The same thing happened in 2011. The TSX Composite had a poor year, falling more than 11%. Metro again performed well, rising nearly 20%.

You can probably guess how Metro has performed over the last six months. As the TSX Composite has sunk to lows close to 2013 levels, Metro has quietly chugged along, increasing nearly 10%.

Great geography

One of the reasons why **Empire Company Limited** (TSX:EMP.A) has been struggling lately is because of the company's new focus on western Canada.

Empire's Safeway chain is mostly to blame for its woes. Sales at Safeway are being dragged down by the weakening economy, especially in Alberta. Since Safeway is an upscale grocer, cash-strapped customers are going to places they consider to be a better value.

Metro's stores are a long way from these troubled economies. The company has more than 600 stores in Quebec and Ontario under the Metro, Metro Plus, Super C, and Food Basics banners. It doesn't have a store west of Thunder Bay.

While it's difficult to say that any part of Canada is doing particularly well economically, it's obvious that the eastern part of the country is a better place to be than the western part for just about any business–grocery stores included.

Steady growth

Last year was a solid year for Metro. Same-store sales were up 4%. Earnings hit $519 million, which was an increase of 13.6% compared with 2014. Earnings per share cracked the $2 mark for the first time, coming in at $2.01 for the year.

And 2016 looks to be much of the same. Analysts expect earnings to jump another 14% to $2.28 per share this year and then increase similarly in 2017 to $2.50 per share. There aren't many companies in Canada with that sort of growth potential, especially in today's economy.

Investors do have to pay a bit of a premium valuation for that growth, however. At $39.47 each, shares are currently trading at almost 20 times trailing earnings. The valuation goes down if you look at forward earnings, but Metro is still more expensive than many of its peers.

Metro has proven it can outperform during tough times. There's no reason to believe it won't happen again. That makes it the perfect stock to own when the market is going haywire.

CATEGORY

1. Investing

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1. TSX:EMP.A (Empire Company Limited)
2. TSX:MRU (Metro Inc.)

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Date
2025/09/07
Date Created
2016/01/21
Author
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