Do Metro, Inc.'s Shares Fully Reflect the Company's Positive Fundamentals?

Description

Wouldn't it be nice if we could invest in a company that was at least somewhat immune to the volatility and uncertainty in the markets today–a company that doesn't really care too much about the price of oil or consumer confidence?

Well, one such company is none other than Canadian-based food retailer and distributor **Metro, Inc**. (TSX:MRU). And this makes sense as the consumer staples sector is by definition relatively immune to all that due to the nature of the products being sold. In today's market, this kind of stability and safety is just what investors are looking for.

To be sure, the company is doing a splendid job despite price inflation. Here are the key things to like about the company and its recent results.

Stability

Metro has consistently meet or beat expectations in the last six quarters, and this is something that is always highly valued by investors, but especially so in an uncertain market that has limited visibility, like the market these days.

Same-store sales are up nicely

Same-store sales increased 2.8% compared with the same period last year and 3.8% versus the last quarter.

Margins are up in the quarter

The company has been doing a good job increasing margins, as we can see in the fact that the operating margin and the net margin were up this quarter. The operating margin was 7.1% versus 6.7% in the same period last year, and the net margin was 4.7% versus 4% in the same period last year.

Alimentation Couche-Tard Inc. investment continues to pay off

Metro’s share of **Alimentation Couche-Tard’s** (TSX:ATD.B) earnings was $30.6 million in the quarter compared to $17.9 million in the same quarter last year for an increase of 71%.

Dividend increased 20%

The company generated free cash flow of almost $300 million in the quarter and decided to increase its dividend by 20%. The company’s dividend yield now stands at 1.4%.

Final thoughts

Investors must consider whether or not the company’s valuation reflects all the good stuff and if the company is trading at a price that will limit future returns. Earnings growth is decelerating, and the stock is currently trading at a P/E of 20.8 times, which historically is in the high end of where the company has traded at.

Based on consensus earnings expectations, earnings are expected to increase 13.8% in 2016, 9.5% in 2017, and 8.7% in 2018.

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1. Editor's Choice

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1. TSX:MRU (Metro Inc.)

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Author
karenjennifer