Does Metro, Inc.'s Earnings Beat and Dividend Hike Signal a Buying Opportunity?

Description

Metro, Inc. (TSX:MRU), one of the largest owners and operators of grocery stores, convenience stores, and drugstores in Canada, announced better-than-expected first-quarter earnings results and a dividend hike on the morning of January 26. Let's take a closer look at the results, the dividend increase, and up-to-date fundamentals of the stock to determine if now is the time to buy.

Breaking down the first-quarter report

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

Metric	Q1 2016 Actual	Q1 2016 Expected	Q1 2015 Actual
Adjusted Earnings Per Share	$0.56	$0.53	$0.45
Revenue	$2.96 billion	$2.94 billion	$2.84 billion

Source: Financial Times

Metro's adjusted earnings per share increased 24.4% and its revenue increased 4.3% compared with the first quarter of fiscal 2015. The company's double-digit percentage earnings-per-share growth can be attributed to its adjusted net earnings increasing 19.7% to $139.8 million and its weighted-average number of fully diluted shares outstanding decreasing 4.9% to 242 million.

Its strong revenue growth can be attributed to its same-store sales increasing 2.8%, which it said was largely due to its merchandising strategies and continued investments in its retail stores.

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

1. Gross profit increased 5.2% to $576 million
2. Gross margin improved 10 basis points to 19.4%

3. Operating income before depreciation, amortization, and associate’s earnings increased 10.7% to $210.3 million
4. Operating margin improved 40 basis points to 7.1%
5. Cash flow from operating activities increased 6.3% to $207.7 million
6. Opened two new stores and carried out major expansions and renovations of 10 stores

Metro also announced a 19.7% increase to its quarterly dividend to $0.14 per share, and the next payment will come on March 15.

Should you buy Metro today?

It was a fantastic quarter overall for Metro, and the dividend increase was icing on the cake. With this being said, I think its stock represents a very attractive long-term investment opportunity today for two reasons in particular.

First, Metro’s stock trades at just 17.9 times fiscal 2016’s estimated earnings per share of $2.33 and only 16.2 times fiscal 2017’s estimated earnings per share of $2.57, both of which are inexpensive given its estimated 14.8% earnings growth rate in fiscal 2016, its estimated 10.3% earnings growth rate in fiscal 2017, and its estimated 10% long-term earnings growth rate.

With its growth rates in mind, I think Metro’s stock could consistently command a fair multiple of at least 20, which would place its shares upwards of $46 by the conclusion of fiscal 2016 and upwards of $51 by the conclusion of fiscal 2017, representing upside of over 10% and 22%, respectively, from current levels.

Second, Metro now pays an annual dividend of $0.56 per share, which gives its stock a 1.3% yield. At first glance, a 1.3% yield may not seem like a legitimate reason to buy the stock, but it is crucial to note that the company has raised its annual dividend payment for 21 consecutive years, and the increase it just announced puts it on pace for 2016 to mark the 22nd consecutive year with an increase.

With all of the information provided above in mind, I think Metro represents one of the top value and dividend-growth plays in the retail industry. All Foolish investors should strongly consider making it a core holding.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)

Category

1. Investing

Date
2025/07/07
Date Created
2016/02/01
Author

jsolitro