Why Empire Company Limited Fell 15% in a Day

Description

Empire Company Limited's (TSX:EMP.A) third quarter ended on January 30. It posted adjusted earnings per share of $0.30, a 30.2% decrease compared with the third quarter of the previous year. The decrease was primarily due to the impairment loss from its West business unit.

The company's shares reacted by falling almost 15% to $22.8 per share. Empire also faces the difficult economic environment primarily in Alberta and Saskatchewan due to low commodity prices.

default watermark

About Empire Company

Empire has $10.1 billion in assets and about $24.1 billion in sales each year. Empire's two business segments are food retailing through its Sobeys stores and real estate investments.

Empire has 350 retail fuel locations and wholly owns Sobeys with more than 1,500 stores across Canada under the banners of Sobeys, Safeway, IGA, Foodland, FreshCo, Thrifty Foods, and Lawton's Drug Stores.

Additionally, Empire owns 41.5% interest in **Crombie Real Estate Investment Trust** (TSX:CRR.UN) and has an interest in Genstar.

Third-quarter results

Empire's sales were up 1.5% to $6 billion. Sobeys's same-store sales grew 40 basis points. It would have increased 2.7% if the negative impacts of fuel sales and the retail West business unit were excluded. A big portion of the West business unit impact was due to the Safeway banner challenges.

Those challenges revolve around integrating, operating, and reorganizing the Safeway business. On top of that, Empire continued to experience a negative impact from its merchandising and promotional strategies for the Safeway banner. However, management thinks that the latter is a short-term issue.

An impairment loss of $1,592.6 million was recognized in the West business unit for goodwill, and another loss of $137.7 million was recognized in long-lived assets.

Valuation

Empire now trades at a multiple of 13.5. This cheap valuation was last seen in 2014. This is a fair multiple to pay for the food retailer. The company's normal long-term multiple is actually at about 12.7, implying a fair value of roughly $21.

Dividend

Although Empire's dividend yield is only 1.8%, it is at the high end of its yield spectrum. Over 10 years its yield mostly oscillated between 1.3% and 1.7%. Its payout ratio is 24%. Further, Empire has increased its dividend for 21 consecutive years. According to its usual dividend-growth schedule, it should increase the dividend in July.

Conclusion: What should investors do?

I think investors should wait another quarter to see if the Safeway integration issue improves. However, if you already own some shares, you might wish to dollar-cost average in on this dip when it reaches its historically high yield. If you are interested in income, you should consider Crombie, which yields 6.5%, separately.

default watermark

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CRR.UN (Crombie Real Estate Investment Trust)
2. TSX:EMP.A (Empire Company Limited)

Category

1. Dividend Stocks
2. Investing

Date
2025/09/07
Date Created
2016/03/11
Author
kayng

default watermark