This Successful Real Estate Company Just Hit a 52-Week Low

Description

Market volatility has brought many successful stocks back into value territory. Recently hit is **Empire Company Limited** (TSX:EMP.A), a real estate conglomerate.

With a market cap of just $3.8 billion, it's understandable if you haven't heard of the company. Long-term shareholders, however, likely don't care if others are paying attention. Since 2000 shares are up over 370% compared to a mere 59% rise for the TSX average. This strong performance has been almost completely underpinned by improving financials.

What's behind the recent dip?

Image not found or type unknown
Image Source: Empire Company Limited Annual Report
Image source: Empire Company Limited annual report

The conglomerate discount

Empire is a bit difficult to understand at first because of its disparate holdings; it has interests in the food, pharmacy, wholesale, liquor, and fuel markets. The company operates over 1,800 retail locations comprising 35 million square feet of space. It's biggest holdings are its full ownership of Sobeys Inc. and a 41.5% equity interest in **Crombie Real Estate Investment Trust** (TSX:CRR.UN).

Crombie owns a portfolio of 255 commercial properties (mainly grocery-anchored and drug store locations) across in 10 provinces. Valuing that is pretty easy given it's publicly traded. With a market cap of $1.06 billion, Empire's ownership is worth about $440 million. Valuing the Sobeys interest is a bit trickier.

Sobeys is Canada's second-largest food retailer with 1,500 stores (under a variety of banners) as well as more than 350 retail fuel locations, operating in every province and in over 900 communities across Canada. Food retailing sales in 2015 were $23.93 billion with EBITDA of $1.23 billion. Net income for food retailing last year was roughly $344 million.

Loblaw Companies Limited, which has a similar business and margin profile, has a five-year-average valuation of 0.4 times sales. If Sobeys carried a similar valuation, it would be worth about $9.6 billion.

Altogether, Empire's assets may be worth up to $10 billion. With a market cap of just $4 billion, many investors argue that the company is plagued by a "conglomerate discount;" because of its disparate collection of assets, the market refuses to give it the valuation multiple placed on similar businesses.

Will the value gap be closed?

While it's easy to argue that Empire is undervalued, what are the drivers that will help shareholders realize the potential upside? The easiest way is for Empire to buy back the undervalued shares itself.

This month, the company filed to purchase 5,206,137 shares, about 3% outstanding. This may not seem like a big move, but the company can issue this size of buyback every month. With over $600 million in free cash flow, it should have plenty of funds to direct back to share buybacks.

In the meantime, management has clearly shown an ability to create long-term shareholder value through growing the business organically. At the minimum, the valuation gap gives you fairly limited downside for what looks like a fantastic business.

Image source: YCharts

Image not found or type unknown

Image source: YCharts

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/22
Date Created
2016/03/17
Author
rvanzo