Metro, Inc.’s Q2 EPS Soars 18.6%: Is Now the Time to Buy?

Description

Metro, Inc. (TSX:MRU), one of Canada’s largest owners and operators of grocery stores, convenience stores, and drugstores, reported better-than-expected second-quarter earnings results this morning, and its stock has reacted by moving higher. Let’s break down the results and the fundamentals of its stock to determine if it could continue higher from here and if we should be long-term buyers today.

The results that ignited the rally

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

Metric	Q2 2016 Actual	Q2 2016 Expected	Q2 2015 Actual
Fully Diluted Earnings Per Share	$0.51	$0.50	$0.43
Revenue	$2.88 billion	$2.83 billion	$2.71 billion

Source: Financial Times

Metro’s fully diluted earnings per share increased 18.6% and its revenue increased 6.5% compared with the second quarter of fiscal 2015. Its very strong earnings-per-share growth can be attributed to its net earnings increasing 11.9% to $124.9 million and its weighted-average number of fully diluted shares outstanding decreasing 5.5% to 239.7 million.

The company’s strong revenue growth can be attributed to its same-store sales increasing by 5%, its largest increase since 2009, and it noted that this could be attributed to its “constant focus on customer expectations” and “major investments” in its stores.

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

1. Gross margin remained unchanged at 19.9%

2. Operating income before depreciation, amortization, and associate's earnings increased 10.5% to $202 million
3. Earnings before income taxes increased 14.1% to $166.3 million
4. Cash flow from operating activities increased 18.7% to $257.5 million
5. Aggregate food basket inflation was 3%

Metro also announced that it would be maintaining its quarterly dividend of $0.14 per share, and the next payment will come on June 9.

Should you buy in to the rally?

It was phenomenal quarter overall for Metro, and the results surpassed analysts' expectations, so I think the market has responded correctly by sending its stock higher. I also think the stock will head higher from here and that it represents a great long-term investment opportunity today for two primary reasons.

First, it's trading at attractive valuations. Metro's stock currently trades at 18.3 times fiscal 2016's estimated earnings per share of $2.35 and 16.8 times fiscal 2017's estimated earnings per share of $2.56, both of which are inexpensive compared with its trailing-12-month price-to-earnings multiple of 20 and the industry average multiple of 25.8. These multiples are also inexpensive given the company's estimated 9.9% long-term earnings-growth rate.

Second, it's a dividend-growth play. Metro pays an annual dividend of $0.56 per share, which gives its stock a yield of about 1.3%. A 1.3% yield may not peak your interest at first, but it is very important to note that it has raised its annual dividend payment for 21 consecutive years, and its 19.7% hike in January has it on pace for fiscal 2016 to mark the 22nd consecutive year with an increase.

With all of the information provided above in mind, I think all Foolish investors should strongly consider beginning to scale in to long-term positions in Metro today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)

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jsolitro