Why Empire Company Limited’s Shares Have Tanked 10% Today

Description

Empire Company Limited (TSX:EMP.A), one of the largest owners and operators of grocery stores in Canada, announced its fourth-quarter earnings results after the market closed yesterday, and its stock has responded by plummeting 10% in today’s trading session. Let’s take a closer look at the results, one other important announcement made by the company, and the fundamentals of its stock to determine if this weakness represents a long-term buying opportunity or a warning sign to avoid it for the time being.

Breaking down Empire’s fourth-quarter performance

Here’s a quick breakdown of 10 of the most notable statistics from Empire’s 14-week period ended on May 7, 2016, compared with its 13-week period ended on May 2, 2015:

1. Adjusted net earnings decreased 30.3% to $95.3 million
2. Adjusted earnings per share decreased 28.6% to $0.35, surpassing analysts’ expectations of $0.34
3. Revenue increased 8.9% to $6.28 billion (the additional week in Q4 2016 accounted for approximately $461.2 million, or eight percentage points of its 8.9% growth), surpassing analysts’ expectations of $6 billion
4. Sobeys’ same-store sales, excluding the negative impact of fuel sales and the retail West business unit, increased 0.2%
5. Sobeys’s same-store sales, including fuel sales and the retail West business unit, decreased 1.8%
6. Gross profit increased 6.2% to $1.55 billion
7. Adjusted earnings before interest, taxes, depreciation, and amortization decreased 20.5% to $269.6 million
8. Cash flows from operating activities decreased 4.1% to $244.8 million
9. Free cash flow decreased 85.8% to $82.5 million
10. Weighted-average number of diluted shares outstanding decreased 2.1% to 271.7 million

Dividend hike? Yes, please

Empire also announced a 2.5% increase to its quarterly dividend to $0.1025 per share, and the next payment will come on July 29 to shareholders of record at the close of business on July 15.

Should you buy or avoid Empire’s stock today?

It was a very weak quarter overall for Empire, so I think the post-earnings drop in its stock is warranted. However, I also think the drop represents a great buying opportunity for the long term for two primary reasons.

First, its stock is now wildly undervalued. Empire’s stock now trades at just 12.9 times fiscal 2016’s adjusted earnings per share of $1.50, only 12.5 times fiscal 2017's estimated earnings per share of $1.55, and a mere 11.4 times fiscal 2017's estimated earnings per share of $1.71, all of which are very inexpensive compared with its five-year average price-to-earnings multiple of 15.9 and the industry average multiple of 34.8.

Second, it's one of the best dividend-growth plays in the market. Empire now pays an annual dividend of $0.41 per share, which gives its stock a yield of about 2.1%. A 2.1% yield may not impress you at first, but it's very important to note that the dividend hike it just announced puts it on pace for fiscal 2017 to mark the 22nd consecutive fiscal year in which it has raised its annual dividend payment.

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

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:EMP.A (Empire Company Limited)

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