



Is Sobeys's Loss Loblaw Companies Limited's Gain?

Description

Could the fourth-quarter results from **Empire Company Limited** ([TSX:EMP.A](#)) be the straw that broke the camel's back? Investors pummeled the holding company's stock after Sobeys announced goodwill impairments of \$1.3 billion at its Western Canada business unit. With the Safeway acquisition slowly turning into a retail debacle rivaling **Target Corporation's** colossal failure of expanding into Canada, investors are right to question if Sobeys can turn it around.

But even if the folks in Stellarton can right the ship out west, investors have to be wondering if Sobeys's loss is **Loblaw Companies Limited's** ([TSX:L](#)) gain?

The short answer? Maybe. Look closely at Empire Company's Q4 report and one section stands out. Any ideas? I'll give you a hint. It revolves around goodwill.

When the company acquired Safeway's western Canadian stores in November 2013, it paid \$5.8 billion, which was financed through a \$1.8 billion equity offering, the sale-leaseback of \$991.3 million in real estate (about half the total acquired), \$2 billion in term loans, and \$1 billion in unsecured notes. The asset purchase agreement identified \$2.9 billion in assets with the remaining \$2.9 billion allocated to goodwill.

"As at the end of fiscal 2016, there was no remaining goodwill within the West Business unit," states page three of Empire Company's fiscal 2016 management discussion and analysis.

Translation: Empire theoretically overpaid by \$2.9 billion. Having said that, it's still possible for Sobeys to turn things around out west and ultimately deliver a return on investment for shareholders, but that's not going to happen for several years. In the meantime, value investors will look at this situation, assessing whether the damage to Empire's stock is permanent or temporary. After all, it's fallen significantly since hitting its all-time high of \$31.98 in early 2015.

Those looking to put their money to work elsewhere can move right past **Metro, Inc.**, which only operates in Ontario and Quebec.

Loblaws, on the other hand, would benefit greatly from a failed expansion by Sobeys in western

Canada, where it operates 668 stores under several banners, including the Real Canadian Superstore and Shoppers Drug Mart; that's about 28% of its national footprint. Any stumble by its second-largest competitor in the Canadian grocery store wars would allow Loblaw to pick up some of the former Safeway's best real estate.

On a valuation basis, there's no question that Loblaw is the growth stock here. While Sobeys's same-store sales decreased 1.8% in its fourth quarter ended May 7, Loblaw saw a 2% same-store sales increase for its first quarter ended March 26. It's a little bit of an apples-to-oranges comparison, but nonetheless, it's easy to see who is performing better at the moment.

At the end of the day, I don't see Sobeys giving up on its western Canadian unit despite almost \$3 billion in non-cash impairments. Value investors should be interested in Empire's stock. Growth investors will steer clear of Empire, preferring the good times over at Loblaw.

However, if you do go for Loblaw, I'd be inclined to buy **George Weston Limited** ([TSX:WN](#)), where you get the same play, but at a discount.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:EMP.A (Empire Company Limited)
2. TSX:L (Loblaw Companies Limited)
3. TSX:WN (George Weston Limited)

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/08/21

Date Created

2016/06/30

Author

washworth

default watermark