Is Metro, Inc.'s 8% Dip a Buying Opportunity?

Description

Metro, Inc. (TSX:MRU) has dipped 8% to under $44 per share from its 52-week high of $48 per share. Yet the shares are still 24% higher than they were a year ago.

In fact, in the last decade an investment in Metro would have had annualized returns of 15.9%, equating total returns of 342%. Essentially, its returns doubled that of market returns in that period.

In the same period, Metro's earnings per share (EPS) increased at a compound annual growth rate (CAGR) of 12.3%, and its price-to-earnings ratio (P/E) expanded from about 14.3 to 18.4.

Can Metro continue growing at a double-digit rate? First, here's an overview of its business.

The business

Metro was founded in 1947. Today, under multiple banners, including Metro, Metro Plus, Super C and Food Basics, the company operates a network of more than 600 food stores in Quebec and Ontario. They primarily consist of supermarket and discount stores.

In addition, Metro operates more than 250 drugstores and pharmacies under the banners of Brunet, Clini Plus, Metro Pharmacy and Drug Basics.

Because Metro operates in the stable provinces of Quebec and Ontario and falls under the consumer staples sector, its earnings have historically been strong and stable.

In the last 15 years, Metro only had one year of negative earnings growth. It occurred in the last recession in 2008. That said, its EPS declined only 1% in that year.

Valuation and growth

After pulling back 8%, Metro trades at a P/E of 18.5. It's expected to grow its EPS by 11.4% in the medium term.

In the past, Metro has grown with strategic acquisitions and partnerships. Its last major partnership agreement was with Première Moisson bakery in 2014 in order to differentiate itself with premium bakery products.

A part of Metro's EPS growth will be attributable to share buybacks. The company will be repurchasing up to 12,000,000 shares until September 2017. This means the company could retire up to 6.4% of its public float.

Share buybacks benefit current shareholders. The lower the share count, the more each share will be worth, and the bigger a piece of the company they represent.

Dividend

Although Metro only yields 1.3%, it has increased its dividend for 21 consecutive years at a double-digit rate, which is a remarkable achievement.

In the last five years, Metro increased its dividend at a CAGR of 15.5%. Yet its payout ratio remains low and sustainable at 24%.

Conclusion

Metro is an investment-grade company with an S&P credit rating of BBB. In the last fiscal year, it bought back shares at a weighted average price of $37.96 per share, which was a P/E of 18.7 based on its 2015's EPS.

Today the shares trade at a P/E of 18.5, which are priced at a slight discount. However, in the fiscal year 2015, Metro experienced EPS growth of 19%. This year growth of 16% is expected.

With medium-term EPS growth expected to be about 11%, Metro shares are fair to fully valued today, which could warrant a buy for long-term investors looking for a stable company with above-average growth.

CATEGORY

1. Dividend Stocks
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1. TSX:MRU (Metro Inc.)

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