3 Stable Food Retailers to Protect Your Portfolio

Description

Food retailers are consumer staples, which tend to generate stable earnings in all sorts of economic environments. These retailers also have low betas compared to the market. So, they can add protection and stability to your portfolio and give you peace of mind.

The businesses

Alimentation Couche Tard Inc. (TSX:ATD.B) is a global convenience store operator with a leading position in North America, Scandinavia, Ireland, and the Baltics.

You may have shopped at its stores, including Couche Tard, Circle K, Mac's, Ingo, Statoil, Kangaroo Express, and Topaz.

The company is in the process of rebranding to the Circle K banner–except for the Mac's stores in Quebec, where Couche Tard started.

Including the **CST Brands** acquisition, which strengthens its presence in the U.S., particularly in Texas, Couche Tard will have about 12,700 stores and 1,500 licensed stores internationally.

Loblaw Companies Limited (TSX:L) offers grocery, pharmacy, health and beauty, apparel, general merchandise, and financial products and services under the banners of Superstore, no frills, extra foods, Shoppers Drug Mart, and more. Loblaw has more than 2,400 stores across Canada.

Metro, Inc. (TSX:MRU) operates more than 600 food stores in Quebec and Ontario under multiple banners, including Metro, Metro Plus, Super C, and Food Basics. Additionally, it has more than 250 drugstores and pharmacies under the banners of Brunet, Clini Plus, Metro Pharmacy, and Drug Basics.

Stable earnings

Since 1998 all three companies have posted positive earnings; in other words, they've remained profitable for every single year! So, shareholders can sleep well at night with these companies in their portfolios. But which company has generated the most stable earnings?

Since 1998 Couche Tard had one year of earnings-per-share (EPS) decline of 14% during the last recession in 2008. It also had two years of no growth.

In the same period, Loblaw had five years of EPS decline. However, since it acquired Shoppers in 2013, Loblaw has been on a growth trajectory, compounding its EPS by about 13.9% on average per year.

Since 1998 Metro had two years in which its EPS declined by 5% and 1%, respectively. In the last decade, Metro only had one year of EPS decline–and it was in 2008.

Outperform the market

Due to their stable nature, food retail stocks tend to outperform the market.

Though it wasn't so for Loblaw for the last 15-, 10-, and five-year periods because it had a multi-year earnings decline from 2004 to 2008. However, it seems to have turned a new leaf after the Shoppers acquisition.

Metro's annualized returns for the last 15-, 10-, and five-year periods were 18.4%, 13.9%, and 20.5%, respectively, which beat the average market returns of 10%. (The actual market returns were lower than 10% in two of those periods.)

Couche Tard's annualized returns for the last 15-, 10-, and five-year periods were 30.5%%, 21.9%, and 45.8%, respectively, which greatly outperformed the average market returns of 10% and its peers.

Which food retailer is the best bet going forward?

At below $68 per share, Loblaw trades at a forward price-to-earnings ratio (P/E) of about 16, and it's expected to grow its earnings on average by 10-13% per year in the next few years.

At below $44 per share, Metro trades at a forward P/E of about 17.2, and it's expected to grow its earnings on average by about 11% per year in the next few years.

At below $64 per share, Couche Tard trades at a forward P/E of about 19.3, and it's expected to grow its earnings on average by 13-15% per year in the next few years.

The food retailers can add stability to any stock portfolio because of their steady earnings and low betas. Loblaw has the lowest forward valuation. So, value investors might favour it.

However, Metro and Couche Tard have tended to outperform Loblaw in the past, even since Loblaw acquired Shoppers. Since the start of 2014 Loblaw's annualized returns have been 20.4%, Metro's have been 30.4%, and Couche Tard's have been 37.9%.

Couche Tard has had higher returns on equity in the last decade than Metro and Loblaw. So, if I had to invest in one food retailer, I'd wait for a pullback in Couche Tard, although I'd consider investing in

Metro given the right valuations. After all, there's enough room in one portfolio for two solid food retailers.

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1. Dividend Stocks
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1. Editor's Choice

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2. TSX:MRU (Metro Inc.)

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