Is Metro, Inc. a Good Buy After Dipping 12%?

Description

Metro, Inc. (TSX:MRU) has dipped about 12% to under $42 per share from its 52-week high of $48. But the shares are still about 14% higher than they were a year ago.

In fact, in the last decade an investment in Metro would have had annualized returns of 14.5%, equating total returns of 285%. Essentially, its returns more than doubled the market returns in that period.

In the same period, Metro's earnings per share increased at a compound annual growth rate (CAGR) of 12.3%, and its price-to-earnings ratio expanded from about 15.5 to 17.6.

A stable business

Metro was founded in 1947 and is headquartered in Montreal, Quebec. It operates a food retail network of about 600 stores and more than 250 drugstores and pharmacies in the provinces of Quebec and Ontario.

Its food retail stores are segmented across supermarkets (58% of the stores), discount stores (36%), and partnerships (5.7%).

Specifically, its supermarkets operate under the banners of Metro and Metro Plus, and its discount stores operate under the banners of Super C and Food Basics. Its drugstores and pharmacies operate under the banners of Brunet, Clini Plus, Metro Pharmacy, and Drug Basics.

The partnerships

In October 2011, Metro entered a partnership with Marché Adonis to hold 55% interest in it and its distributor, Phoenicia Products.

Adonis is a food retailer specializing in Mediterranean products. Phoenicia Products, which imports and distributes exclusive products, had a warehouse in each of Montreal and Toronto. Since the partnership, five new stores have been added, of which two were expansions into Ontario.

In June 2014, Metro acquired a majority interest in Première Moisson, a leading Quebec bakery manufacturer and retailer. Since the partnership, two new stores have been added.

Recent results

Here are Metro's results three quarters into the fiscal 2016 year.

Compared with the same period in the previous year, it had sales growth of 5% to $9,850 million and operating income growth of 9.1% to $709.7 million. Its take-home net income was $441.2 million, which was 13.8% higher.

Dividend growth

Thanks to its share-buyback program, Metro's fully diluted net earnings per share rose 19.3%. This year the company hiked its dividend per share by 20% with a reasonable payout ratio of about 23%.

The food retailer has increased its dividend for 21 consecutive years. In the last decade, it has increased its dividend at a CAGR of 13.8%, while growth in recent years has ranged 12-20% per year.

Although Metro pays a small dividend yield of 1.3%, that income can grow fast as long as the company continues to perform and repurchase its shares.

Conclusion

Metro continues to chug along with single-digit growth in its sales and operating income. At less than $42 per share, the food retailer trades at a forward multiple of about 16.3 with earnings-growth expectations of 9-11% per year in the next few years.

Although there's upside potential from current levels, it would be better to start a position in Metro closer to $39, which would be a forward multiple of about 15. And if the shares fall below $32, that would be time to back up the truck.

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