



## Can Unloved Empire Company Limited Be a Great Turnaround Investment?

### Description

Since 2015 **Empire Company Limited** ([TSX:EMP.A](#)) has fallen 36% from \$30 to \$19 per share. Could that be a great price to buy the unloved food retailer for outsized gains?

First, let's explore its business before figuring out why it has fallen so much.

### The business

Empire has \$8.8 billion in assets and earns about \$24.6 billion in sales each year. The company has a food retail business with a presence in every province and also invests in real estate investment trusts.

Empire has 350 retail fuel locations and wholly owns Sobeys; it has more than 1,500 stores across Canada under the banners of Sobeys, Safeway, IGA, Foodland, FreshCo, Thrifty Foods, and Lawton's Drug Stores.

Additionally, Empire owns an interest in **Crombie Real Estate Investment Trust** and has other real estate partnerships.

Real estate is a great source of income. In the last quarter, which ended in early August, Empire earned \$14.8 million of its operating income from its real estate investment trusts. This was 11.7% of its operating income earned in the three months.

### First-quarter results

Empire's sales were down 1% to \$6.19 billion. Sobeys's same-store sales grew 40 basis points. It would have increased by 60 basis points if the negative impacts of fuel sales and the retail West business unit were excluded.

### Challenges turned into opportunities?

The company continues to face challenges, particularly in western Canada, due partly to the Safeway banner challenges. These challenges revolve around integrating, operating, and reorganizing the

Safeway business, which Empire acquired in 2013.

For example, there were merchandising issues such as the private label conversion and supply chain issues, which impacted the offerings available to customers. However, management is aware and is addressing these issues.

Moreover, the reorganization process can eliminate certain positions. If so, efficiencies and cost savings can materialize and lead to higher earnings in the future.

## **Dividend**

Empire yields almost 2.2% at about \$19 per share. It has grown its dividend for 21 consecutive years. In the last five years it compounded its dividend per share by nearly 8% per year.

Despite the hurdles it has been facing, the food retailer continued to hike its dividend this year by 2.5%. The company's payout ratio is expected to remain below 38% for the year. So, there's a margin of safety to protect its dividend.

## **Conclusion**

Although Empire has lots of kinks to work through, management is addressing the issues. Once the problems are fixed and redundancies are eliminated, Empire will likely come out as a better and more efficient company.

In the meantime, it looks like management is committed to paying and growing its dividend. If Empire's earnings per share returned to its fiscal 2015 level, investors buying now would be essentially getting a discount of 23-32%. So, Empire could turn out to be a very rewarding investment three to five years down the road.

However, cautious investors shouldn't rush into the shares. Instead, they should first wait for some sort of catalyst to trigger the turnaround.

## **CATEGORY**

1. Dividend Stocks
2. Investing

## **TICKERS GLOBAL**

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

## **Category**

1. Dividend Stocks
2. Investing

## **Date**

2025/08/14

## **Date Created**

2016/10/31

## **Author**

kayng

default watermark

default watermark