Metro, Inc. Beats Earnings With Help From Alimentation Couche-Tard Inc.

Description

Metro, Inc. (TSX:MRU) has just released its Q4 2016 results, and investors and analysts are pleasantly surprised. In the fiscal year 2016 ended September 24, the company reported increased earnings of approximately 13% to $586.2 million and increased sales of 4.6% year over year to $12.79 billion.

The company's increased profitability and better than expected performance is due, in part, to its store earnings as well as its associated earnings from **Alimentation Couche Tard Inc.** (TSX:ATD.B), whose stock the company has owned since 1987, when Metro sold Couche Tard 75 stores in exchange for shares in the now-profitable company.

Metro's reliance on Alimentation Couche Tard

Metro's "share of associate's earnings" listed on its financial statements amounts to $91.1 million for the fiscal year 2016, which is approximately 15.5% of the company's total earnings ($586.2 million). Metro currently owns approximately 32 million shares of the convenience-store retailer Couche Tard–approximately 7.5% of the company.

The ties between Metro and Couche Tard date back to 1987 when Metro divested 75 of its stores under the "7 Jours" banner and sold them to Couche Tard in exchange for shares in the company. Couche Tard has since seen its shares climb due to all-time highs in 2016 because of a prudent acquisition strategy. The strategy focuses on retail stores to diversify its road-transportation-fuel-retailing business; this business has seen lower profitability due to the recent dip in the price of oil, which as affected prices at the pump and margins on retailing gas.

Metro has, in the past, used its stake in Couche Tard to its advantage, selling off shares in 2013 to pay off debt and re-purchase shares. The company has a "nest egg" of sorts, which many analysts point to as a means of liquidity in difficult times.

The company's strategy moving forward, one which may involve additional acquisitions to spur growth, may be reliant on the liquidation of part or all of its existing stake in Couche Tard to finance any proposed deals. This is in addition to the company's unused credit facility of $415.4 million, which may come into play should an attractive deal become available.

The flip side of Metro's current diversification position is that it increases the overall liquidity of the company, indirectly. The company's long-term debt as a percentage of capital sits at a healthy 31%–a far cry from other competitors in the industry that hold heavy debt positions due to acquisitions relating to overall industry consolidation.

For the time being, Metro's position in Couche Tard acts as a source of diversification, whereby the company has gained exposure to the convenience-store retail sector without branching out into this sector themselves. This has proved to be a fantastic boost to company earnings in the short term and may pay off handsomely in the long term should the company need access to short-term liquidity to make long-term investments.

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