



Empire Company Limited: Is the Stock Permanently Broken?

Description

Things went from bad to worse for **Empire Company Limited** ([TSX:EMP.A](#)) shareholders December 15 on the news its second-quarter profits dropped 70% to \$32.9 million on a 2.1% decline in revenue.

Investors took little time expressing their displeasure, sending its stock down more than 12% in early trading. Empire's stock is now trading below its five-year low of \$16.90.

Is there anything the Sobey family can do to stop the bleeding? Or has the Safeway fiasco permanently broken Empire Company's stock?

For the sake of the Sobey family fortune, which has declined by approximately \$1.4 billion since Empire stock hit a five-year high of \$31.98 in February 2015, you would hope so.

Prior to the Safeway acquisition in 2013, and even after it, Empire Company stock was doing great. Between 2006 and 2014, it had a positive total return in seven out of eight of those years. It has only had one down year in 2008, when it had a negative total return of less than 1% compared to a decline of 33% for the S&P/TSX Composite Total Return Index.

In other words, it was a shining star, and now that star appears to be crashing to earth.

At the heart of the problem continues to be Sobeys's inability to integrate the \$5.8 billion Safeway acquisition into its own business. Since the deal, Empire Company has been forced to take \$2.8 billion in goodwill impairments—an obvious indication in hindsight that it overpaid in a big way for the western Canadian grocery chain.

However, that's now firmly in the past.

To right the ship, interim CEO François Vimard has brought in consultants to figure out how it can cut costs at Sobeys, deeper and of the more permanent variety, so that it can return the grocery store to its historical levels of profitability while addressing the problems in its organizational structure that prevent it from meeting the needs of shoppers.

It's never a good thing when you have to bring in third parties to solve your problems, but perhaps a fresh set of eyes is needed to make this turnaround work.

In the second quarter, Sobeys's same-store sales from Sudbury East to the Atlantic, excluding fuel, declined by 1.2%; from Thunder Bay West, they dropped 3.8%.

While it's easy to blame all of its woes on the acquisition, it's clear that problems exist in the eastern part of Canada as well. That said, **Loblaw Companies Limited** ([TSX:L](#)) isn't exactly lighting it up on the revenue front either.

In the three months ended October 8, Loblaw's same-store sales growth in the food unit increased by 1.4%, excluding fuel, compared to 3.1% a year earlier. Of course, Loblaw is doing a great job on the bottom line, and that's translated into a decent year on the markets.

The only way Empire Company stock can stop this skid is by Sobeys delivering better profits in the coming year; a same-store sales uptick east of Thunder Bay would be even better, and the same thing from its West unit would send its stock immediately back to \$30.

When will this happen?

I say positive same-store sales growth in its East unit will happen in 2017, and it will occur possibly a year later for better profits and same-store sales growth in its West unit.

Is it a value play? Absolutely, it is.

"We still think they have a decent business, their financials are still pretty respectable—at some point, they'll turn things around out west," CIBC Asset Management portfolio manager Patrick O'Toole recently told the *Globe and Mail*.

I do too.

That's why I would buy some Empire Company stock today and hold some cash for another big correction in the future. In my opinion, its stock is not permanently broken.

Opportunity is knocking. It's time to answer.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:EMP.A (Empire Company Limited)
2. TSX:L (Loblaw Companies Limited)

Category

1. Investing

Date

2025/08/19

Date Created

2016/12/15

Author

washworth

default watermark

default watermark