



Is Empire Company Limited Really a Bargain?

Description

Despite its share price having fallen more than 50% from its 2015 high, **Empire Company Limited** ([TSX:EMP.A](#)) should probably be avoided as an investment today.

Price-wise, the food retailer's shares trade at the 2009 recession level. So, on initial glance, it may seem to be priced at an unbelievable bargain. However, looking at its various valuation metrics will tell you otherwise.

Is Empire *really* a bargain?

Empire's price-to-sale ratio (P/S) of 0.2 seems to indicate the shares are a huge bargain. However, it turns out the company's five-year average P/S was 0.3.

Additionally, it's common for food retailers to have P/S of less than one. Empire's competitors, **Loblaw** and **Metro**, have P/S of 0.6 and 0.8, respectively.

Empire's price-to-book ratio (P/B) of 1.2 indicates the shares are actually expensive compared to its five-year average P/B of 0.9. How can that be the case?

Since fiscal 2015, Empire's book value per share has fallen more than 50%. This decline more or less matches the share price decline in that period.

grocery store type unknown

Since Empire's earnings are expected to continue to fall in the near future, I decided to use a forward price-to-earnings ratio (P/E) based on adjusted earnings instead of today's P/E.

At \$15 per share, Empire trades at a forward P/E of about 13.8. However, its long-term normal P/E is 12.7. So, from this perspective, Empire is considered fully valued.

In summary, in contrary to what meets the eye from the huge price decline, Empire is not exactly a bargain. In fact, it's far from it.

Operational results

Empire's recent operational results haven't been impressive to say the least. Its adjusted earnings per share fell 20% in the last fiscal year. And they're expected to fall another 27% this fiscal year.

The takeaway

From the looks of things, to avoid catching a falling knife, interested investors are probably better off waiting for an uptick supported by strong volume before buying.

That said, Empire has had a long history of success in the past. Additionally, it is committed to returning value to shareholders; it has grown its dividend for 21 consecutive years.

Even with its scary earnings decline so far, on an adjusted basis, Empire's dividend is still sustainable with a payout ratio of less than 38%. So, its 2.7% yield should be safe.

If you have a long-term horizon of at least five years, now may be a good time to start a small position in the food retailer and buy more shares when its earnings look like they are turning around.

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