



How Empire Company Limited's New CEO Will Drain the Swamp

Description

Empire Company Limited ([TSX:EMP.A](#)) has been in free-fall mode for quite some time, but the stock is starting to show signs of life after the announcement that **Canadian Tire Corporation Limited's** ex-CEO will become the new CEO of Empire and Sobeys. It's never a good strategy to catch a falling knife, but I believe the stock is oversold and could offer terrific value to shareholders with a long-term mindset.

There's no question that Empire's complex operational structure is a huge mess right now, and changes won't happen overnight. It may actually take more than a year for Empire to get its operations back in order, so contrarian investors interested in a rebound should have a long-term horizon because in the short term, it's very likely that the stock will face a ridiculous amount of volatility.

A history lesson in the Canadian grocery space

Loblaw Companies Limited ([TSX:L](#)) was in a similar situation about 10 years ago. Operations were a complete mess, and this resulted in the stock tanking by as much as 62%. Loblaw suffered from supply chain problems, but the roots of the issues were poor management decisions and a mess of an operational structure. It was a complete wreck, and investors were avoiding the stock like the plague.

There was a huge management shakeup in late 2006 which saw Galen G. Weston step up as executive chairman, and former Canadian Tire retail head Mark Foote became president. The new management team had a 100-day consultation to get all the problems out on the table, and after that they developed a new strategy to turn the troubled company around. The management team decided to go with a "simply, innovate and grow" strategy in order to "fix the basics" and drain the swamp.

It was originally estimated that it would take at least three years to fix operations, but the company returned to profitability in just a year. The Great Recession kicked in around this time, and it brought down the stock just like everything else in the market, but Loblaw was a new and improved company that found a way to get things back on track.

Can Michael Medline actually "drain the swamp" and get Empire back on track?

It's true that Michael Medline doesn't have the experience in the grocery sector that would be desired, but I believe he's the perfect man for the job. He knows the retail business and the Canadian market very well, and these are two very important things that are needed to get Empire back on track.

Empire's issues are different from the ones Loblaw faced, but they are all boiled down to operational efficiency. The grocery space is a low-margin business, so there's no room for error. Empire made the right move by getting a new man at the helm, and I believe the inefficient complex operational structure will be fixed in two years or less. The stock will soar shortly after, but this may be a few years down the road.

Conclusion

The stock is very cheap right now, and I would only recommend buying shares if you're a patient investor with a long-term mindset. The stock could still face more downside this year, so it's important that you don't pay attention to the day-to-day movements of the stock.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Investing

Date

2025/08/24

Date Created

2017/01/20

Author

joefrenette

default watermark