Is Metro, Inc. a Buy on the Dip?

Description

Metro, Inc. (TSX:MRU) is a Canadian grocery and pharmacy retailer that operates in Ontario and Quebec. The company fell by as much as 17% from its peak last summer, giving up all of its gains that it'd built in the first half of the year.

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There's no question that the grocery space is very competitive, and with low margins on food, there's little room for operational inefficiency. Canadian consumer staples have been doing very poorly lately since investors have been running away from defensive stocks and into more cyclical names as the Canadian and American economies continue to rebound. The reason for the recent decline in the stock is just sector weakness and is through no fault of the company's recent performance.

Metro has been showing some decent earnings growth over the last decade thanks to a terrific management team that has been focused on delivering long-term value for its investors.

The company reported impressive fiscal 2016 results; income grew by 9.1% to $709.7 million, and sales grew by 5% to $9.85 million. We can expect terrific dividend raises of up to 20% going forward if these fantastic results continue into 2017.

The stock has also been given a huge boost over the last few years thanks to its associated earnings from **Alimentation Couche Tard Inc.** (TSX:ATD.B), which has been an earnings-growth machine. Alimentation Couche Tard is a well-managed operator of convenience stores and gas stations with locations all over the world. Metro's earnings are constantly given boosts thanks to its reliance on Alimentation Couche Tard.

What about valuation?

The stock currently trades at a 17.7 price-to-earnings multiple and a 3.6 price-to-book multiple, both of which are higher than the company's five-year historical average multiples of 15 and 2.7, respectively. Although the company is seeing some sales growth, I don't believe the stock is a very good value at current levels.

Metro is growing too slowly to command a premium over its historical average. Competition is too fierce in the Canadian grocery space, and this may result in a loss of sales in the long term. When combined with razor-thin margins, we could actually see Metro fall further from here.

If you're looking to buy a stock in the grocery business, then **Loblaw Companies Limited** (TSX:L) offers better growth for the price. Loblaw is hitting it out of the park with its Shoppers Drug Mart chain of pharmaceutical stores, which are experiencing fantastic same-store sales growth. The company is also cheaper with a price-to-book multiple of two.

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