Which Food Retailer Is More Attractive Today?

Description

Everyone needs to eat; you either eat out or get groceries to cook at home. Since making meals yourself is more economical, people tend to cook at home more often than they eat out. That's why there may be a place for food retailers in your portfolio.

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Which of **Loblaw Companies Limited** (TSX:L) and **Metro, Inc.** (TSX:MRU) should you consider?

Loblaw

Loblaw is Canada's largest retailer and the majority unitholder of **Choice Properties REIT**. It has more than 2,300 corporate, franchised, and associate-owned locations.

The food retailer offers grocery, pharmacy, health and beauty, apparel, general merchandise, banking, and wireless mobile products and services.

You'll recognize the names it operates under, including, but not limited to, Shoppers Drug Mart and Superstore, and its brands, such as President's Choice, no name, and Life.

Analysts expect its earnings per share to grow 11.3-12.2% in the next three to five years. So, trading at a multiple of 16.4 at $67.40, Loblaw is decently valued for its growth potential.

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fruits, groceries

Loblaw has a mean 12-month price target of $79.30 across 13 **Reuters** analysts, implying an upside potential of about 17%.

The food retailer's well-covered 1.5% yield can only add to returns.

Loblaw has traded sideways between $64 and $74 for roughly two years. So, interested investors might consider buying shares at $64 or lower.

Metro

Metro has a leading position in food and pharmaceutical distribution in Quebec and Ontario. The company has more than 600 food stores, including supermarkets and discount stores and more than 250 drugstores.

Analysts expect Metro's earnings per share to grow 9.2-9.7% in the next three to five years. At $39, Metro trades at a multiple of about 15.9.

Metro has a mean 12-month price target of $46.10 across 12 Reuters analysts, implying an upside potential of about 18%.

It offers a nearly 1.7% yield, which adds to returns. Moreover, Metro is a dividend-growth star. It has hiked its dividend for 22 consecutive years and increased it at an average rate of 15% over the last 10 years. In fact, the food retailer just raised its dividend last month by 16%.

Which should you invest in?

Both Loblaw and Metro have been awarded investment-grade S&P credit ratings of BBB.

For new purchases looking three to five years out, Loblaw looks more attractive right now due to it being more attractively valued compared to its growth potential. That said, Metro has shown a strong commitment to growing its dividend.

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Both companies are defensive consumer staple stocks that you can hold for reasonable returns. If they experience any further dips, investors should consider scooping up some shares for their long-term portfolios.

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1. Dividend Stocks
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