Are Shares of Empire Company Limited Taking Off?

Description

After hitting a low of $14.74 per share in December 2016, shares of **Empire Company Limited** (TSX:EMP.A) have started to climb out of the basement and are now trading with a little more forward momentum.

As most investors are aware, the company has experienced a number of issues, starting with an overpriced acquisition in western Canada only a short time before the fundamental supply/demand relationship in the oil market broke down. Going south with the price of oil were a number of jobs and workers who were temporarily living in western Canada.

One thing about the grocery business that is pretty clear is a higher population leads to higher sales. Basically, when a number of people left town, sales left along with them. Sometimes the simple, obvious reason is the right one.

Looking back over the past five years, shares of Empire Company have never been bought for the dividend yield. What was traditionally bought for capital appreciation may look attractive to dividend investors. Although the yield is currently no more than 2.5%, the reality is, this yield is — comparatively speaking — very high when looking at the company's history.

One year ago, shares traded of approximately $25, translating to a yield of 1.6% for investors. Given the decline to the current price of approximately $16.75, the company is now offering new investors 2.5% with huge potential to grow the dividend over time.

The dividend-payout ratio was 18.5% for fiscal 2013, 58.3% for 2014, 27% for 2015, and given the large write-down in 2016, it was negative. Backing out the write-down, however, the dividend-payout ratio was approximately 22% for 2016. For the first half of fiscal 2017, the dividend-payout ratio was 45% for the first quarter and 125% for the second quarter.

Although the payout ratios have increased, the reality is, the Albertan economy is currently in a recession with what are now very price-conscious consumers. Enter the new CEO, Michael Medline, who, after several years at **Canadian Tire Corporation Limited**, where he accumulated significant retail experience, is now stepping into the top job at Empire Company.

Let's look at dividends as a percentage of cash flow from operations (CFO); the percentages are 8.3% for 2013, 10.6% for 2014, 8.6% for 2015, and 12.1% for 2016. For the first half of fiscal 2017, the payout ratio was 14.5%.

Given the sustainability of the dividend and the position of the company, there may be huge potential for investors seeking both capital appreciation and dividend growth. Given that the grocery industry is about as interesting as watching the grass grow, this could be the type of investment that fits the "get rich slowly" profile.

Considering that Empire Company Limited is a defensive company, the lower dividend should be accepted given the company's lower-risk profile. The good news is, we've already experienced the pullback from over $25 to the current price. Going forward, we can only hope it'll be full steam ahead.

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