Contrarian Investors: Is it Time to Load Up on Empire Company Limited?

Description

Empire Company Limited (TSX:EMP.A) rallied 12% from its $15 low in December, and it looks like the stock has hit a turning point with a new CEO at the helm. The stock has been oversold for a long time, and it appears that downside is limited at current levels. The downward momentum is still strong, but shares are just too cheap to ignore at current levels.

The company's complex organizational structure is in disarray right now, and new CEO Michael Medline won't be able to fix the problems overnight. In fact, it could take a few years before a real change is reflected in a quarterly report.

Empire overpaid for an acquisition in western Canada right before the Canadian economy went off a cliff. There's no question that there's no room for error in the grocery business. Margins are razor thin, and if any problems arise, the stock could go tumbling in a hurry.

But the grocery sector isn't completely horrible. It's actually a double-edged sword. The defensive nature of the grocery business allows for companies to do well during times of recession. We all need to eat, even if the economy is crumbling.

Can Michael Medline bring Empire out of the gutter?

Many pundits have been criticizing **Canadian Tire Corporation**'s ex-CEO Medline due to his lack of experience in the grocery business. Sure, he's had success with a Canadian retailer in Canadian Tire, but what can he offer a struggling grocery business?

I believe Medline has the tools needed to make Empire great again. He knows the ins and the outs of the Canadian retail market better than most.

The organizational structure is complicated, and it's clearly inefficient right now. Medline isn't a miracle worker, but I think he can slowly get things back on track by driving operational efficiencies in each part of the business. It's not an impossible task, and with someone as experienced as Medline, I'd say Empire will be in pretty good shape a few years down the road. We'll look back on this huge dip andtell ourselves what a huge buying opportunity it was.

Valuation

The stock currently trades at a 1.3 price-to-book multiple, a 0.2 price-to-sales multiple, and a 5.5 price-to-cash flow multiple. The dividend yield is at a generous 2.44%, which is substantially higher than the company's five-year historical average yield of 1.6%. The dividend is sustainable at current levels and should be treated as a bonus by investors looking for a rebound.

The stock is cheap, and it looks ripe for a rebound, but don't expect this rebound to be overnight. Buy the stock and collect the bountiful dividend while you wait for shares to jump as the company turns around.

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joefrenette