# Contrarian Investors: Is Empire Company Limited Set to Soar?

## Description

**Empire Company Limited** (TSX:EMP.A) has been in a house of pain for almost two years, and the stock has lost half of its value during this time. The organizational structure is a complicated mess, but the company has hired former **Canadian Tire Corporation Limited** executive Michael Medline to help clean up the mess. Medline doesn't have experience in the grocery business, but he knows the Canadian retail market very well, and I think that's enough for him to get Empire's head of out the dirt.



The grocery sector is an extremely difficult place to thrive. Margins are incredibly thin, and anything short of operational excellence could potentially result in a disaster. Empire's complicated operational process is a complete wreck right now, and that's why the stock has been getting punished for such a long time. Empire also overpaid for an acquisition right before its massive downfall — a poorly timed decision by the management team.

The entire defensive sector has also gone out of favour because of the average investor has become more bullish than they were a year ago. I believe the defensive sector sell-off is overdone, and there's a huge opportunity for value investors to hunt for undervalued gems. Empire could be one of these gems, and I think it could be on the verge of turning around.

The company owns some terrific brands like Sobeys and Safeway, which aren't going out of business anytime soon. Medline needs to get the right people in place so the company can focus on the basics to start growing again. This is not going to happen overnight; it could take many years before the changes are reflected in the financials, so if you're looking for a quick way to profit, then you're probably better off looking elsewhere.

The stock currently trades at a 0.2 price-to-sales multiple and a 5.5 price-to-cash flow multiple, both of which are lower than the company's five-year historical average multiples of 0.3 and 6.9, respectively. The stock seems rather cheap based on these metrics, but the price-to-book multiple is at 1.3, which is higher than the five-year historical average of one. The company's book value went off a cliff along with the stock, so this is why the price-to-book multiple seems expensive.

Is the stock really cheap?

That depends on whether or not Medline can drain the swamp that is Empire's complicated organizational structure. Many pundits believe he's the right man for the job, and if he is, then Empire could be on its way to a slow recovery over the next few years.

The stock is a falling knife right now, so if you're a long-term investor with a time horizon of five years or more, then I'd buy the stock in small increments on the way down.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. TSX:EMP.A (Empire Company Limited)

**PARTNER-FEEDS**

1. Msn
2. Newscred
3. Yahoo CA



**Category**

1. Investing

**Date**
2025/08/23
**Date Created**
2017/03/09
**Author**
joefrenette