The Grocery Store Stock Showdown

Description

Consumer defensive stocks, such as **Loblaw Companies Limited** (TSX:L) and **Metro, Inc.** (TSX:MRU) have underperformed in the last year. They can help increase the stability of your portfolio and can potentially outperform in future years.

But which should you buy today? Let's discuss both companies.

Loblaw

Loblaw is Canada's largest retailer, and it owns about 83% 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.

It operates under multiple banners, including Superstore, No Frills, Extra Foods, and T&T. You'll recognize its brands such as President's Choice, no name, and Life.

Since acquiring Shoppers Drug Mart in 2013, Loblaw has seen decent earnings-per-share (EPS) growth every year. Specifically, from 2013 to 2016, Loblaw has compounded its EPS by 16.2% on average per year.

Over these three years, Loblaw has increased its dividend by about 3% on average per year. Today, it offers a conservative 1.4% yield.

Analysts expect Loblaw's EPS to grow 11.7-11.8% on average per year in the next three to five years. So, trading at a multiple of 17.3 at $71.40, Loblaw is reasonably valued for its growth potential.

Loblaw has a mean 12-month price target of $79.80 across 12 **Reuters** analysts, implying an upside potential of almost 12%.

grocery store

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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 EPS to grow 9.2-9.7% on average per year in the next three to five years. At $40.60, Metro trades at a multiple of about 16.4.

Metro has a mean 12-month price target of $46.10 across 12 Reuters analysts, implying an upside potential of about 13.5%.

The food retailer offers a safe 1.6% yield that 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. Most recently in the first quarter, the food retailer raised its dividend by 16%.

Which should you invest in?

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

Some investors might like Loblaw because it's bigger and more diversified. Moreover, its expected earnings-growth rate is expected to be about 2.3% higher than Metro's. So, it makes sense that Loblaw has a slightly higher multiple than Metro.

That said, there are also merits to owning Metro. It has proved to be more profitable and more shareholder friendly.

Metro has maintained a high return on equity (ROE) of 14-22% in the last decade and at least 16% every year in the last five. This strong record is thanks partly to its share-buyback program, which has reduced its share count by 32% in the last decade.

If you care about dividend growth, Metro is also a better choice as it has consistently increased its dividend at a double-digit rate every year since 2009.

Comparatively, in the last decade, Loblaw’s ROE never exceeded 12%. Moreover, its share count has actually increased by 49% in the period and has diluted its shareholders’ positions in the process.

Investor takeaway

Both Loblaw and Metro can add stability to your portfolio. If you like Loblaw for its diversity, you can aim for a lower price of $64-67 for a bigger margin of safety.

Income investors would probably like Metro more for its track record of dividend growth. In the last five years, Metro’s dividend has more than doubled. Interested investors can consider buying shares starting at the $37-39 level for a bigger margin of safety.

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kayng