



This Stock Could Be the Best Contrarian Play on the TSX

Description

Empire Company Limited ([TSX:EMP.A](#)) soared over 9% this week and looks to be heading for a rebound. In my previous pieces, I'd stated that Empire was undervalued but had the potential to break out thanks to its great brands in Safeway and Sobeys.

Many pundits have criticized CEO Michael Medline's lack of grocery sector experience, but I think he's got what it takes to "drain the swamp" that is Empire's complex and inefficient organizational structure. It's definitely not going to happen overnight, so you shouldn't hope for the stock to soar into the atmosphere over a short period of time, but if you buy the stock now while it's undervalued, you will do very well a few years down the road.

The stock is now up 21% since my [buy recommendation](#) just over three months ago, but I still think there's a lot of upside to be had, as the stock is still cheap and there's still a considerable margin of safety.

Empire recently reported its third-quarter results. The company saw earnings per share of \$0.11, which beat analyst expectations by a whopping \$0.07. Revenues dropped by 2.2% year over year, but the most compelling story was that Empire almost tripled analyst expectations.

Don't get too excited just yet, because there's still a ton of work to be done to get Empire back on track, and this could take at least a year. I believe the rally after the results was warranted, and I think the stock could be on a sustained rally to much higher levels from here.

Medline stated that Sobeys let down its customers in its product offerings and its sub-par marketing strategy. Medline is determined to get both Sobeys and Safeway back on track with operational improvements, cost cuts, and same-store-sales growth initiatives to win its customers back. Medline stated, "We will take aggressive and bold actions to address the issues in our business, and we are prepared to make the tough decision and decisive actions necessary to see Empire return to sustainable profitable growth."

It's clear that Medline knows what the problems are, and although he doesn't have much grocery experience, I think his Canadian retail expertise is enough to make both Sobeys and Safeway great

again. Empire is ridiculously cheap, and I think it's one of the most promising contrarian plays on the TSX today. Buy shares and just forget about them for the next year, and you'll most likely see substantial gains.

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