Has the Stock of Empire Company Limited Gotten Ahead of Itself?

Description

In my previous piece on **Empire Company Limited** (TSX:EMP.A), I stated that the stock was dirt cheap with a margin of safety, and it was a great rebound candidate for contrarian investors looking for deep value.

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The stock is now up over 36% since that article was published just over four months ago. I knew that Empire was an attractive long-term rebound candidate, as it would take many years to clean up the complex organizational mess, but it came as a surprise to me that the stock soared so high, so fast. Is there any upside left in the shares of Empire? Or has the stock run ahead of reality?

Michael Medline, the new CEO at the helm of Empire, has an impressive track record from his time at **Canadian Tire Corporation Ltd**. He knows the ins and outs of the Canadian retail space, but many pundits questioned his suitability for the job, as he has no real experience in the grocery space. Even if he is a great manager, he's no miracle worker, and Empire's organizational structure is in complete disarray.

The grocery sector is a very tough business, and anything short of perfection could be harmful to the company's long-term top and bottom lines. The margins are thin, and it's clear that consumers expect better from Empire, and Mr. Medline is going to have to fix operations if he's going to win the average consumer back. I believe Mr. Medline has what it takes. It's not like his experience from Canadian Tire won't come in handy.

What about the valuation?

We all know that Empire's brands, Safeway and Sobeys, are household names used by most Canadians, but the stock has been on a tear lately, and I believe the easy money has already been made. The stock is no longer in "deep value" territory, but I still think it's a great play for a long-term investor who is willing to hang on to shares for five or more years.

It's quite possible that the stock could be ripe for a correction over the next few months because any meaningful changes brought forth by Mr. Medline won't be realized until at least a year down the road.

The stock currently has a 1.5 price-to-book multiple, which is considerably higher than the company's five-year historical average price-to-book multiple of one. At this point, I'd probably sit on the sidelines, at least until the stock pulls back to a more attractive valuation in the short to medium term.

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