3 Things to Love About Metro Inc.'s Second Quarter Results

Description

With **Metro Inc.** (TSX: MRU), consistency been the name of the game in recent years. And in today's market and economy, which is fraught with uncertainty and risks, I think that this is a very attractive selling point when it comes to this stock. Starting with the fact that it is in the grocery industry, which is relatively immune to the ups and downs of the economy due to the nature of the products being sold, down to company specific factors, this stock is one that will not get in the way of a good night's sleep.

Let's review the most recent quarter that was reported this week, as it is further evidence of the consistency and defensive nature of this company.

Another quarter, another beat

In the second quarter of fiscal 2017, Metro once again beat expectations, as the company reported better than expected earnings per share of $0.56 compared to $0.51 in the same quarter last year. So Metro Inc. continues to show consistency and stability, as it has repeatedly done over the last few years. Add this quarter to its string of earnings beats and we have more evidence of a company that is performing exceptionally well.

Cost control

Food deflation was 2% in the quarter, and while food deflation continues to hit hard, Metro has made the best of it, with same store sales increasing 0.7% and gross margin increasing 20 basis points to 20.1% due to lower shrinkage and a more profitable sales mix. Lastly, the company was able to reduce its operating expenses to 12.8% of sales from 12.9% of sales last year, and achieved an improved EBITDA margin of 7.2% versus 7% last year. Impressive considering the deflationary environment.

Another dividend increase

The company increased its dividend yet again this quarter, by 16.1% from last year. The cumulative average growth rate of the dividend since 2014 now stands at an impressive 17%.

Risks and opportunities

Some of the risks with this company are well known but in my view there are plenty of mitigating factors. One big risk is the fact that their industry remains highly competitive and deflationary. **Wal-Mart Stores Inc.** (NYSE: WMT)continues to ramp up its presence in the grocery category, and pricing pressure has been intense. And while management has said that they believe the worse in behind them in terms of deflationary pressures, this remains to be seen.

Opportunities lie in the fact that the company still has a strong Balance Sheet and is ramping up its growth efforts. This year, the plan is to open 10 stores and continue to invest in remodeling of existing stores. Furthermore, the company's investment in Adonis and "ethnic" foods is a clear growth area.

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