Defensive Investors: Should You Be Loading Up on Metro, Inc.?

Description

A stock market crash is inevitably going to happen, but nobody knows when or how severe it will be. It's not a mystery that we're in the late stages of a bull market, and valuations have gotten ahead of themselves, but many investors are still overly bullish thanks to Donald Trump's pro-business agenda, which is expected to strengthen the U.S. economy and give Canada a nice boost.

The general public has become quite unrealistic regarding earnings of late. Many investors are left scratching their heads as to why a particular stock isn't soaring because of top- and bottom-line beats. Because of the massive rally the markets have enjoyed since the Trump presidential victory, we've witnessed terrific earnings reports that have resulted in a single-day sell-offs because one or more metrics were slightly below expectations. Everyone is expecting perfection right now, and anything short of that has been resulting in disappointment and sell-offs.

I believe Trump's agenda will give the bull market new legs, but that doesn't mean you should forget about your defensive holdings. Nobody knows when the next correction will be, and once it happens, it'll be too late to load up on defensive stocks because the costs of entry will be a lot higher.

One terrific defensive stock to consider is **Metro, Inc.** (TSX:MRU), a Canadian grocer operating in Ontario and Quebec. The company just came off a fantastic Q1 2017 earnings report with a better than expected earnings per share of $0.56 versus $0.51 during the same period in the previous year.

Margins in the grocery space are thin, and food deflation hit 2%. Competition is fierce, but Metro has still been able to thrive through its initiatives, such as decreasing operating expenses. The management team has shown they are able to perform, even when the environment becomes harsh.

Valuation

The stock currently trades at a 18.76 price-to-earnings multiple, a 3.9 price-to-book multiple, and a 0.8 price-to-sales multiple, all of which are higher than Metro's five-year historical average multiples of 15, 2.7, and 0.6, respectively.

The stock isn't cheap right now, and there are better grocers out there that offer more growth prospects than Metro. Unless you're a defensive investor who's worried about an incoming correction, I'd probably wait until Metro becomes more attractively valued.

The management team is solid and knows how to navigate a tough environment, but unless you're willing to pay a premium, you should probably just keep this stock on your watch list with the intention of buying it another day.

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Date
2025/07/07
Date Created
2017/06/05
Author
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