



How Empire Company Limited Is Coming out of the Basement

Description

Shares of **Empire Company Limited** ([TSX:EMP.A](#)) have performed very well over the past six months, increasing by approximately 30% from the \$15 lows. The challenge investors are beginning to face is the tapering off of momentum, which translates to a pullback in the share price to under the \$20 price. The lower price leads to a higher dividend yield.

Shares pay an annual dividend of \$0.41 per share, so a lower share price of \$15 (as an example) would lead to a dividend yield in excess of 2.7%. On the flip side, a higher share price of \$25 would lead to a dividend yield of no more than 1.7%, which translates to a much less attractive opportunity.

As shares of this grocer hit a 52-week intra-day low of \$14.74 and have since rebounded to a price near \$21.50, investor interest has declined significantly. To compound the changing sentiment, the company, which focuses on western Canada (the oil sands), has also been the victim of a falling oil price. While Empire is clearly defensive, it is important for investors to have proper expectations. During an economic downturn, customers may purchase significantly fewer high-margin products and more low-cost (low-margin) items at the grocery store.

When considering company financials, top-line revenues have started to stabilize, dropping only 2.6% quarter over quarter in comparison to the previous year (for the quarter ended January 31). When considering full-year revenues, the total amount of revenues has still increased year over year.

What makes this stock interesting is that after a very large amount of uncertainty, many investors are still hesitant to take a position as the effects from the oil sands will not act as a tailwind for a long time yet. For many investors, a 2% dividend yield is just not enough to keep the momentum going.

By looking at the simple moving averages (SMAs), it is clear that the company had an excellent run over the past six months with the momentum beginning to cool down over the past eight to 10 weeks. Given the sideways movement of the share price, the 10-day SMA and 50-day SMA are now beginning to catch up to one another, and the share price has started to fall under both SMAs.

Although the fundamental drivers of the company remain solid, the reality is that markets are sometimes irrational, and investors sometimes take their cues from how the stock performs instead of

doing proper analysis. Given the new downtrend in the share price, investors may want to seriously consider doing the “heavy lifting” by analyzing the fundamentals and financial of Empire Company Limited.

While a decline in the oil price is not a positive factor for investors, the reality is that people still need to do groceries.

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