



Empire Company Limited May Be Heading for Another Plunge

Description

Empire Company Limited ([TSX:EMP.A](#)) has been kind to contrarian investors looking for a rebound in 2017. The stock lost over half of its value between 2015 and 2016, but it appeared that a bottom has formed. Bottom fishers have started to pile in to the stock following the promising news that ex-CEO Michael Medline would become the new man at the helm behind the struggling Empire and Sobeys grocery stores.

In many of my [previous pieces](#), I stated that Empire was a terrific long-term turnaround play and that Michael Medline was the right man for the job. Although he didn't have grocery experience, he had a wealth of experience in the Canadian retail industry, and I thought he'd be able to learn the ropes and eventually pull Empire out of the swamp it's currently in.

Empire's operational structure was quite an inefficient mess when Mr. Medline jumped on board. Mr. Medline isn't a miracle worker, and even if he was a grocery store tycoon, real long-term changes probably wouldn't affect the financials in his first year at the helm. Mr. Medline is making the right steps to make Empire great again, but major changes like these take a great deal of time.

I thought Empire was a great long-term play, but to my surprise, the stock soared over 43% from trough to peak. Could it be that Mr. Medline pulled off a miracle in a fraction of the time that many experts were predicting? Not quite. Many bottom fishers and contrarian investors started jumping in because the stock was absurdly cheap, not because the Empire is running an efficient operation again.

It appears that Empire's recent rally is running out of steam as the negative momentum starts to pick up again. The rally didn't appear to be sustainable to me because a few months isn't enough time to see what Mr. Medline is truly capable of.

I still think Empire is a great long-term buy, but not with all the negative momentum and volatility surrounding the stock right now. If you're looking for a long-term turnaround play, then you might want to be patient and wait for a better entry point, which will probably present itself in the coming months.

The grocery space is a very tough industry to thrive in. The margins are low, food deflation is eating into profits, and if Empire isn't operating in the most efficient manner, then headwinds are going to

continue to get the better of it.

There's no quick and easy solution for the company. I believe meaningful changes will be made, but investors are just going to have to be patient. I wouldn't be surprised if Empire gives up a majority of the gains garnered from this year. If it does, then that's your second chance to get in on what I believe is a promising long-term turnaround play.

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