Here’s Why Empire Company Limited’s Share Price Surged Almost 10%

Description

Empire Company Limited (TSX:EMP.A) reported its fourth-quarter and year-end results yesterday, and they were ahead of consensus expectations. Adjusted EPS was $0.18 compared to $0.35 in the same quarter last year. While this is a sharp year-over-year reduction in earnings, the share price has declined over 30% since the beginning of 2015, reflecting this weakness.

So, what’s in the results that has breathed life into the shares? Well, first of all, we can’t ignore the fact that the shares have increased more than 18% since the beginning of the year; investors were already thinking that they had probably gotten too cheap.

But also, what we are seeing in the company is a renewed focus on efficiency, cost reduction, and delivering the customer a better offering that is designed to improve customer satisfaction. And with CEO Michael Medline, who was responsible for improving **Canadian Tire Corporation Limited’s** (TSX:CTC.A) business, at the helm, we have reason to be optimistic. He has a good track record and has delivered top notch results in his career.

Improved tonnage

While sales declined 7.7% in the quarter, and same-store sales declined 1.1% (1.6% decline, excluding fuel), tonnage increased for the first time in 17 years. Tonnage refers to the volume of groceries that are shipped to the stores, and it is a measure of the health of the business. This is a good early sign.

Higher-than-expected results

Importantly, EPS was $0.18 compared to the consensus analyst expectation of $0.12. When a company starts to beat expectations, it is a good sign for the stock price, as it signals that the valuation is too low.

Gross margins seem to have stabilized, which is also a good sign. In the quarter, the gross margin was 24.6% — flat as compared to the same quarter last year, and up a full percentage point from last quarter's gross margin of 23.6%.

Project Sunrise

The company put in place a three-year plan to simplify the organization and achieve annualized cost savings of approximately $500 million by fiscal 2020. There will be a one-time $200 million charge in the first half of fiscal 2018, reflecting severance, relocation, consulting, and system developments.

In closing, I would like to review the transformation that CEO Michael Medline led back at Canadian Tire. This started a few years ago, and the results that were achieved were stellar. The company's same-store sales growth went from being anything but impressive to top notch with increases of close to 10% store-wide and in the double digits for FGL Sports.

In addition to this, Canadian Tire had grown its EPS from $7.02 per share in 2013 to $9.22 in 2016. In 2016, EPS increased 11.3%. And the shares increased almost 15% in the two years that he led the company.

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