Loblaw Companies Ltd. vs. Metro, Inc.

Description

For most investors, the idea is not only to find a fantastic company in which to invest, but it's also to find securities that complement each other nicely in a portfolio. While most retail investors fall into the trap of buying what looks attractive, it is important to realize that heading down this path can lead to concentration risk. Much too often, portfolios become overweight with too many securities from the same sector.

Looking at some of Canada's most defensive names, investors may want to consider shares of the country's biggest grocers. Currently, **Loblaw Companies Ltd.** (TSX:L) carries a market capitalization of almost $28 billion, while shares of **Metro, Inc.** (TSX:MRU) total approximately $9.5 billion.

Loblaw shares are currently trading at a price near $71 per share which offers investors a dividend yield of 1.5%. Given the nature of the business, investors have had no reason to get excited in the past year. Shares have only risen by approximately 2% in the past 52 weeks with a price return of more than 110% over the past five years.

In comparison, shares of Metro, priced near $42 per share, pay a comparable dividend of 1.5%, but shares have declined by close to 10% over the past year. Investors in the nation's second-biggest grocery store chain have not been very well compensated for their patience. While the news is not all positive, the interesting aspect to consider is the dividend-payout ratio. In the case of Metro, the dividend-payout ratio was 22.7% for 2016, which is very consistent with the previous year.

The dividend-payout ratio for Loblaw was significantly higher at 43% for fiscal 2016 and even higher in the previous year at 69.7%. Clearly, investors have a higher chance of a dividend increase with Metro.

Looking beyond the dividend, investors patiently awaiting returns in shares of Metro may be first to be rewarded. Given that the company has repurchased shares, shrinking the total amount outstanding by almost 8%, the company is going to have an easier time increasing the total earnings per share.

Over the same period, shareholders of Loblaw have also seen the denominator decrease, but in this case, it was by less than 3%. Metro has significantly higher capacity to reward shareholders by either increasing the dividend or continuing to buy back shares.

Given that any increase in revenues will be difficult to come by over the next few years, it will be essential for investors to realize where returns from these companies will come from. Barring any major buyout or merger, the dividend yields of 1.5% will play a significant role on the total returns for shareholders of these defensive companies. The capital appreciation that investors hope will follow may only be minimal.

Investors need to remember: defensive companies translate to lower but more consistent returns over time.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:MRU (Metro Inc.)

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