Why Metro, Inc. Is Down Over 1%

Description

Metro, Inc. (TSX:MRU), one of Canada's largest owners and operators of grocery stores, convenience stores, and drugstores, released its third-quarter earnings results this morning, and its stock has responded by falling over 1%. The stock now sits more than 11% below its 52-week high of $47.41 reached back in May, so let's break down the quarterly results and the fundamentals of its stock to determine if we should consider initiating positions today.

Breaking down Metro's Q3 performance

Here's a quick breakdown of eight of the most notable financial statistics from Metro's 16-week period ended on July 1, 2017, compared with the same period in 2016:

Metric	Q3 2017	Q3 2016	Change
Sales	$4,073.2 million	$4,015.4 million	1.4%
Same-store sales	(0.2%)	3.9%	N/A
Operating income before specific items	$301.5 million	$297.4 million	1.4%
Earnings before income taxes	$243.6 million	$238.2 million	2.3%
Net earnings	$183.0 million	$176.5 million	3.7%
Net earnings per share (EPS) fully diluted	$0.78	$0.72	8.3%
Cash flows from operating activities	$214.6 million	$232.7 million	(7.8%)
Weighted-average number of shares outstanding – fully diluted	229.3 million	238.5 million	(3.9%)

Should you buy on the dip?

It was a decent quarter overall for Metro given the “strong competition and continued food price inflation” that it has continued to face. However, the third-quarter results came in mixed compared with analysts’ expectations, which called for EPS of $0.79 on revenue of $4.05 billion, so I think that is what’s fueling the decline in its stock.

With all of this being said, I think the decline represents an attractive entry point for the long term for two fundamental reasons.

First, it’s undervalued. Metro’s stock now trades at just 16.3 times fiscal 2017’s estimated EPS of $2.58 and only 14.9 times fiscal 2018’s estimated EPS of $2.82, both of which are inexpensive given its current earnings-growth rates and its estimated 10% long-term growth rate.

Second, it’s a dividend-growth superstar. Metro pays a quarterly dividend of $0.1625 per share, equal to $0.65 per share annually, which gives it yield of about 1.55%. The company has raised its annual dividend payment for 22 consecutive years, and its 16.1% hike in January has it positioned for 2017 to mark the 23rd consecutive year with an increase, making it one of the market’s best dividend-growth stocks.

With all of the information provided above in mind, I think Foolish investors should consider using the post-earnings weakness in Metro’s stock to begin scaling in to long-term positions.

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