Cautious Investors: Avoid the Steep Slide of Empire Company Limited

Description

With shares of **Empire Company Limited** (TSX:EMP.A) sliding nearly 5% on Friday, investors are now officially on notice with respect to how steep the slide can be for one of Canada's largest grocery retailers. With the Canadian parent company of grocery retailer Sobeys Inc. seeing its share price rise above levels seen prior to the announced acquisition of **Whole Foods Market** (NASDAQ:WFM) by **Amazon.com, Inc.** (NASDAQ:AMZN), this recent slide indicates that Empire may not be as bullet-proof as once thought with respect to the wide-ranging long-term effects of various headwinds — headwinds that have been felt more heavily by Empire's peers to date.

I have been cautioning investors for some time on the long-term risks associated with Canadian grocers in general, and Empire has been one of the companies I have highlighted as having more risk than its peers for a number of reasons.

First off, Empire has traditionally had much poorer operating fundamentals than its peers for some time now. Margins are one of the key fundamentals I look at when assessing grocery retailers, as profitability and the ability of retailers to manage inventory turnover and other key metrics are some of the most important long-term drivers to consider.

Empire has simply done a worse job than its peers of churning out profits and cash flow, with significant growth for operational improvement hanging like a black cloud over the company's stock for some time. Comparing the company's 10-year performance on nearly every operational metric to that of **Loblaw Companies Ltd.** (TSX:L) or **Metro, Inc.** (TSX:MRU) (companies I'm also caution about), investors can quickly get an idea of where I am going with this.

Although shares have somewhat rebounded of late, I believe that this has only amplified the company's downside, and I remain extremely cautious with respect to the ability of this retailer to withstand a full-out onslaught on multiple fronts. Systematic issues highlighted in numerous analyst reports and contributor pieces speak to just how real the long-term risks for Canadian brick-and-mortar retailers are. Continued deflation in specific high-volume grocery segments as well as continued price wars amid the Canadian grocery retail oligopoly are likely to continue to squeeze margins — margins which are already razor thin (especially so for Empire).

Bottom line

Investors looking for growth in Canada's grocery retail segment shouldn't. I just don't see how the long-term fundamental trends of the grocery retail industry will turn around all of a sudden, with Empire or any of its peers pumping out profitability and distributing this value to shareholders, amid continued margin pressure now coming from the e-commerce industry on top of already intense, competitive downward price pressure. It won’t happen; look elsewhere.

Stay Foolish, my friends.

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3. TSX:L (Loblaw Companies Limited)
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Date
2025/07/17
Date Created
2017/09/05
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