# It's Déjà Vu All Over Again in the Grocery Sector

## Description

Several weeks ago, **Amazon.com, Inc.** (NASDAQ:AMZN) announced that it would acquire Whole Foods Market, Inc., creating a one-of-a-kind retail/grocery store with the potential to sell over the internet in addition to the brick-and-mortar locations. On the news, shares of all Canadian grocery store companies declined in value due to the fear that the new powerhouse grocery retailer would step up competition drastically and make the environment even more competitive than it already is.



Although many investors chose to sell out of their positions on the news, it is important to understand that this is not the first time this situation has happened. More than a decade ago, the huge fear for companies like **Loblaw Companies Ltd.** (TSX:L) was when the gorilla of the time, **Wal-Mart Stores Inc.** (NYSE:WMT), decided to move into the grocery segment and begin selling food in every location. In order to prepare for this, the entire chain of distribution at Loblaw was overhauled in record time. At the time, the company missed earnings estimates on more than one occasion, as the company was not always able to stock shelves in time to meet consumer expectations.

When looking back at these events, which occurred more than a decade ago, shareholders can sleep well knowing that Canada's grocery stores came through challenging periods and remained profitable afterwards. This time is no different.

Currently, in Canada there are no more than 13 Whole Foods locations, which translates to potentially overblown fears from investors. Although many prices at Whole Foods were recently slashed by the new owner, the reality is that most consumers do not want to visit multiple grocery stores to get everything needed every week.

Given the recent pullback in Canada's most defensive companies, shareholders now have the opportunity to purchase shares of companies such as Loblaw and receive a dividend yield of more than 1.5% with the potential for further capital appreciation.

When considering grocery stores other than the country's largest, shares of **Empire Company Limited** (TSX:EMP.A) currently offer a yield close to 2% and have found a clear bottom as the company is in large part finished with the painful restructuring plan that has plagued it for quite some time. Although the company operates nationwide, it is important for investors to be aware that a disproportionate number of the company's locations are in Alberta.

For investors prepared to buy and hold defensive securities with extremely safe dividends, shares of Canada's grocery stores may be the best fit. Regardless of interest rate fluctuations or the phase of the economic cycle, consumers will continue to visit the produce aisle to squeeze the lemons and pick up their groceries. The fear of competition has created a buying opportunity!

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. NASDAQ:AMZN (Amazon.com Inc.)
2. NYSE:WMT (Wal-Mart Stores Inc.)
3. TSX:EMP.A (Empire Company Limited)
4. TSX:L (Loblaw Companies Limited)

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