



Is the Amazon.com, Inc. Scare a Good Buying Opportunity in Food Retailers?

Description

Amazon.com, Inc.'s ([NASDAQ:AMZN](#)) acquisition of Whole Foods Market seems to have put a drag on food retailer stocks such as **Loblaw Companies Ltd.** ([TSX:L](#)) and **Metro, Inc.** ([TSX:MRU](#)). I don't blame the market; Amazon has been a formidable disruptive force in the retail space.

However, there are only 13 Whole Foods locations in Canada. So, as of now, it should have little impact on Loblaw and Metro as most people still likely to go to physical stores (whichever is convenient) to handpick fresh foods.

Loblaw and Metro stocks are currently being pressured by food deflation, minimum wage increases, and healthcare reform in Quebec.

Loblaw stock trades at about 16% below its 52-week high and is down roughly 8% year to date. Metro stock also trades at roughly 16% below its 52-week high and is down about 2% year to date.

Let's determine if the meaningful dips from the highs make the food retailers a good investment today.



Loblaw

Loblaw is Canada's largest retailer with a focus on food and pharmacy. It offers grocery, pharmacy, health and beauty, apparel, general merchandise, banking, and wireless mobile products and services at its more than 2,300 corporate, franchised, and associate-owned locations.

Loblaw operates under discount banners, including Superstore, No Frills, and Maxi, and it acquired Shoppers Drug Mart in 2014. In the first half of the year, Loblaw generated nearly \$21 billion of sales from its retail segment (73% was food retail and 27% was drug retail).

Loblaw is also a majority owner of **Choice Properties Real Est Invstmnt Trst** ([TSX:CHP.UN](#)), from which it generates stable cash flow, as the REIT offers a safe yield of ~5.7%. In the first half of the year, Choice Properties generated \$217 million of funds from operations for Loblaw.

Loblaw estimates the recent minimum wage increases in Ontario and Alberta will boost its labour expenses by \$190 million in 2018.

At roughly ~\$65 per share, Loblaw trades at a multiple of 15.1. The Street consensus at **Thomson Reuters** estimates the company will grow its earnings per share by 8.4% for the next three to five years, which indicates the stock is undervalued.

The analysts have a positive view on Loblaw. They have a 12-month mean price target of \$78.90 on the stock, which implies upside potential of nearly 21% in the near term.

Metro

Metro operates in Quebec and Ontario. Its banners include Metro, Metro Plus, Super C, Food Basics, Brunet, and Pharmacy Drug Basics.

In the first three quarters of the fiscal year, Metro generated nearly \$10 billion of sales. The company estimates the recent minimum wage increase in Ontario will boost its labour expense by \$45-50 million in 2018.

At roughly ~\$39.50 per share, Metro trades at a multiple of 15.6. The Street consensus at Reuters estimates the company will grow its earnings per share by 8.9% for the next three to five years and has a 12-month mean price target of \$47.10 on the stock, which represents upside potential of about 19% in the near term. So, the stock is undervalued.

Investor takeaway

Loblaw and Metro offer yields of ~1.6%. Interested investors can start averaging in to the stocks at current levels as they now trade at relatively attractive levels after a meaningful dip. That said, Loblaw is likely a better choice because it has a larger scale and is more diversified.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)
3. TSX:L (Loblaw Companies Limited)
4. TSX:MRU (Metro Inc.)

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Date

2025/08/26

Date Created

2017/09/11

Author

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