Empire Company Limited's Q1 Results Beat Estimates: Is the Stock a Buy?

Description

Empire Company Limited (TSX:EMP.A) released its first-quarter results on Thursday, which showed the company beat its earnings estimates with an earnings per share of $0.32 compared to the $0.22 that analysts expected. The company saw a very modest sales growth of just over 1% from the prior year as same-store sales growth was only 0.5%.

The bottom line is a lot more encouraging than the top line. Let's have a closer look at the financials to see if these results make Empire a good buy today.

Breakdown by segment

The company's operations are broken down into two main segments: food retailing and investments and other operations.

In the company's food retailing division, which consists of its Sobeys stores, the segment's operating income was flat from the previous year, while adjusted net earnings were up over 28%.

The company's other investments are mainly in real estate, and Empire owns over 41% of **Crombie Real Estate Investment Trust** (TSX:CRR.UN). Crombie saw a 25% decline in its operating income for the quarter, which was attributed to an increase in acquisition activity. Overall, the segment saw a decline of just 6% in operating income, with Crombie weighing down the otherwise positive results.

The company is working on cutting costs

In its previous quarter, the company announced Project Sunrise — a three-year project aimed at reducing costs and simplifying the organizational structure. The expected savings by the end of the project are estimated to be $500 million, but as a result of the changes, the company expects to incur one-time costs totaling $200 million during the first two quarters of 2018.

The company's EBITDA was flat from the prior year; however, after backing out $40 million of costs related to Project Sunrise, the company showed growth of almost 15% in its adjusted EBITDA.

Minimum wage impact

Empire forecasted that the cost of the minimum wage increases in Alberta and Ontario will add $25 million to the company's costs in the current fiscal year, and $70 million in the following year. However, these estimates only take into effect the employees that are currently making less than minimum wage and do not account for any other increases that might come as a result of the change.

The company stated that it is working on plans to mitigate the impact of the minimum wage increases, although it did not specify whether that would be mean an increase in price or further cost-cutting efforts. Empire noted that these plans are separate from the cost-cutting efforts related to the Sunrise Project.

In July, **Loblaw Companies Ltd.** (TSX:L) also forecasted that minimum wage increases would see the company take on an extra $190 million in costs for 2018.

Is the stock a good buy?

In the company's previous quarter, it saw sales drop almost 8%, and it had a 3% decline in the last fiscal year, while turning out profit margins of less than 1%. Although Empire had a good result this quarter, the company is still showing minimal growth and has had very low profit margins. The company is also underestimating the impact that minimum wage increases will have on its bottom line by only considering those that are making less than the current minimums.

The stock is currently trading at a multiple of over 30 times its earnings, and the company's lack of growth doesn't justify the high valuation.

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djagielski