Why Empire Company Limited Soared 14.48% on Thursday

Description

Empire Company Limited (TSX:EMP.A), one of the largest owners and operators of grocery stores in Canada, announced its fiscal 2018 first-quarter earnings results before the market opened on Thursday, and its stock responded by soaring 14.48% in the day's trading session. Let's break down the quarterly results and the fundamentals of its stock to determine if this could be the start of a sustained rally higher and if we should be long-term buyers today.

The results that ignited the rally

Here's a quick breakdown of 10 of the most notable financial statistics from Empire's 13-week period ended on August 5, 2017, compared with its 13-week period ended on August 6, 2016:

Metric	Q1 2018	Q1 2017	Change
Sales	$6,273.2 million	$6,186.6 million	1.4%
Gross profit	$1,531.0 million	$1,490.8 million	2.7%
Adjusted EBITDA	$278.8 million	$243.1 million	14.7%
Operating income	$125.2 million	$126.6 million	(1.1%)
Adjusted net earnings	$87.5 million	$73.6 million	18.9%
Adjusted earnings pershare (EPS) – fully diluted	$0.32	$0.27	18.5%
Book value per commonshare	$13.57	$13.49	0.6%
Free cash flow	$119.7 million	$455.6 million	(73.7%)
Same-store salesgrowth (decline)	0.5%	(1.8%)	230 basis points
Same-store salesgrowth (decline)excluding fuel	0.5%	(1.2%)	170 basis points

What should you do now?

Empire kicked off fiscal 2018 with a very strong first-quarter performance, and the results crushed the consensus estimates of analysts polled by **Thomson Reuters**, which called for EPS of $0.22 on revenue of $6.18 billion, so I think the large pop in its stock was warranted. I also think the stock still represents an attractive long-term investment opportunity for three fundamental reasons.

First, it's back on the path of growth. Empire's adjusted EPS dropped 18.5% to $1.50 in fiscal 2016 and it plummeted 53.3% to $0.70 in fiscal 2017 as the company faced numerous challenges, including a "softening sales trend," but it achieved 18.5% growth to $0.32 in the first quarter of fiscal 2018, and analysts currently expect it to achieve 22.9% growth to $0.86 in the full year of fiscal 2018. The growth is expected to continue in fiscal 2019, with current estimates calling for 51.2% growth to $1.30, and even though it would still be well below the $1.50 it earned in fiscal 2016, it does appear that the company's days of negative growth are over.

Second, it's undervalued based on its growth. Even after the +14% pop, Empire's stock trades at 26.3 times fiscal 2018's estimated EPS of $0.86 and just 17.4 times fiscal 2019's estimated EPS of $1.30; these multiples may seem high at first glance, but I think they are actually very attractive given its current high-double-digit percentage earnings-growth rate.

Third, it's a dividend-growth superstar. Empire currently pays a quarterly dividend of $0.105 per share, equal to $0.42 per share annually, which gives it a yield of about 1.9%. A 1.9% yield is far from high, but what Empire lacks in yield it makes up for in growth; it has raised its annual dividend payment for 22 consecutive fiscal years, and its 2.4% hike in June has it positioned for fiscal 2018 to mark the 23rd consecutive fiscal year with an increase.

With all of the information provided above in mind, I think Foolish investors should consider initiating long-term positions in Empire today with the intention of adding to those positions on any significant pullback in the future.

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