Empire Company Limited: Take This Year's Gains and Run?

Description

Empire Company Limited (TSX:EMP.A) shares are up a whopping ~54% YTD as investors become more confident in the turnaround plan put forth by the new management team. After a few quarterly reports, which showed promising improvements across the board, it appears that Empire is turning things around a lot faster than many pundits originally anticipated. Should investors buy into Empire's recovery? Or have investors become overly excited about short-term results, while missing the big picture, which may appear to be a lot gloomier?

Empire's new management team is doing a fantastic job of fixing the old management team's mess

In a previous piece, I mentioned that Empire was potentially ripe for a rebound; however, I emphasized that investors should be patient with the company as meaningful improvements would likely take a few years. To my surprise, the management team's price discipline gave the company a huge boost, which started to show meaningful improvements over the course of several months rather than years.

If you've been shopping at various grocery stores, then you've probably noticed that Empire-owned stores, like Safeway, command much higher prices than its peers in the Canadian grocery space. We're all trying to save money where we can, and one of the easiest ways to do this is to either buy in bulk or shop at a lower-price supermarket, where food prices are much more reasonable.

Safeway owns smaller stores compared to many large supermarkets out there, and this may be convenient for many Canadians, but it appears that many of us aren't willing to sacrifice affordability for convenience. You just can't be competitive in the Canadian grocery space, unless you can offer prices that are attractive to customers!

Empire's new CEO Michael Medline quickly identified Empire's major problems, and he's been fast to implement solutions — a lot faster than I expected. The new management team reverted many of excess price investments made by the old team and cut promotional activities. Although I'm confident in the new management team's turnaround plan, I believe the company is far from being out of the woods, as the entire Canadian grocery sector is likely to experience severe long-term headwinds going forward thanks to the rise of e-commerce.

Bottom line

The company reported a phenomenal Q1 2018, which saw adjusted EBITDA soar 14.7% year over year, while same-store sales increased by an impressive 230 basis points year over year. I've mentioned in previous pieces that Sobeys and Safeway are great brands, and if a new management team could make things right, customers will likely return.

I believe the post-earnings rally was warranted, and that the new management team essentially saved Empire for a much worse fate; however, I'm not a fan of the Canadian grocery sector as a whole right now, and I think a lot of gains from this year may be surrendered at the hands of fierce competitors, both physical and digital. For that reason, I'm sticking on the sidelines, as I think a much better entry point could be in the cards sometime over the next year or so.

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joefrenette