



Is Metro, Inc. a Buy After Scooping Up Jean Coutu Group PJC Inc.?

Description

Canadian grocer **Metro, Inc.** ([TSX:MRU](#)) recently announced that it's in advanced talks to acquire **Jean Coutu Group PJC Inc.** ([TSX:PJC.A](#)) in a mixed cash and stock deal worth \$4.5 billion. This is a deal that has been rumoured for many years, so the news is a breath of fresh air to shareholders of both companies. Metro and Jean Coutu each soaring by 8.78% and 6.28%, respectively.

What was really remarkable was the fact that the acquirer, Metro surged higher than the acquiree, Jean Coutu. Metro shares have taken a hit on the chin in recent months thanks to the rising threat of **Amazon.com, Inc.** and its plans to enter the Canadian grocery industry.

Jean Coutu has been suffering from a bad case of slowed growth on the top and bottom lines in recent years. The deal makes a lot of sense for Metro, especially considering the fact that drugstores would likely entice the average consumer to go out and grab their medications while they shop for their staples.

As headwinds mount in the Canadian grocery scene, the addition of such a drugstore chain will make Metro more competitive; however, I do not believe Jean Coutu's addition will be able to completely offset major negative trends on the horizon, such as increased competition or increased minimum wage in the provinces Metro operates.

Jean Coutu deal widens Metro's moat

The management team at Metro knows that competition is going to pick up, but it has been making the smart, calculated moves in response. Metro knows its circle of competence (the Ontario and Quebec markets), and it's staying within it. Metro owns over 600 stores in Ontario and Quebec, and Jean Coutu currently has over 400 stores in Ontario, Quebec, and New Brunswick. Clearly, the deal solidifies Metro's position as a dominant force in the provinces where it has built a wide moat for itself over the course of many years.

Although grocery e-commerce disruptors may come after Metro's market of expertise, I think Metro's biggest edge of all is its vast knowledge of the market it operates in. Major disruptors like Amazon can still penetrate Metro's moat over time; however, I believe it'll be tough task, since Metro and Jean

Coutu are very powerful brands that have built a solid reputation in the Ontario and Quebec markets.

Bottom line

Metro is stronger with Jean Coutu, but keep in mind that Amazon and its grocery-delivery platform will still make it very difficult to thrive over the next five years. While Jean Coutu widens Metro's moat, I think Amazon will still be able to penetrate it in the coming years, and for that reason, I'd avoid shares of Metro following its recent rally, at least until shares fall back to more reasonable valuations.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)
2. TSX:TLRY (Aphria)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/07/07

Date Created

2017/09/28

Author

joefrenette

default watermark

default watermark