Metro, Inc. Just Made the Deal of the Year

Description

Metro, Inc. (TSX:MRU) announced this week the takeover of Jean Coutu pharmacy group following a series of negotiations between the two companies in a deal valued at $4.5 billion.

Jean Coutu has over 400 pharmacy locations in Quebec, Ontario, and New Brunswick, whereas Metro has operations in over 850 locations scattered across Quebec and Ontario. Together, the combined company will be Quebec's single largest employer in the private sector with over 86,000 employees.

What does this deal mean for Metro?

Consumer trends are constantly changing, and a shift in recent years has pushed those tastes to include a greater demand for health-related products that are commonly found in pharmacies.

This deal for Metro is akin to a similarly poised move that **Loblaw Companies Ltd**. did a few years back to acquire Shoppers Drug Mart. That deal was a likely catalyst for this deal, but it's not the only one that Metro has conducted recently.

Over the past decade, Metro has completed several acquisitions that have greatly expanded the company's reach and footprint, such as the acquisition of A&P Canada, buying into **Alimentation Couche Tard Inc.** and, more recently, Marché Adonis.

Metro is already forecasting $75 million in synergies over the next three years, with shared warehousing, a greatly expanded and unified online presence, and cross-merchandising.

Cross-merchandising could be a massive opportunity for Metro over time, as Metro products placed in Jean Coutu locations could draw in the shoppers that are looking for those few items that aren't worth going over to Metro for. This was a strategy deployed by Loblaw after the Shoppers transition was wildly successful.

While the deal is still subject to regulatory and shareholder approval, the combined company will account for an impressive $16 billion in annual revenue and free cash flow of $500 million.

Shareholders of Jean Coutu will be voting on the proposal at a special meeting being scheduled for November.

Metro has indicated that the company will sell assets to help finance the deal, expressing a desire to maintain the company' current credit rating. Part of that asset sale could mean a sale of part or all of Metro's 32.2 million shares of Alimentation Couche Tard. Those shares alone could fetch upwards of $1.8 billion at current prices.

Is Metro a good investment?

Even without this deal, Metro is a compelling investment opportunity. The company has registered moderate gains in 2017, and the stock has averaged a little over 8% growth annually over the past two years.

Metro's dividend, which amounts to $0.16 per quarter for a yield of 1.53%, is likely not going to be the first choice for income-seeking investors, but the income is both welcome and stable. Metro has steadily raised that dividend over the past few years, and there's little reason to think that practice won't continue going forward.

Perhaps some of the most intriguing reasons to consider Metro in advance of the current deal comes in the form of Coutu's operations. Few investors realize that Coutu is not only a pharmacy reseller, but it also manufacturers some generic medications. This could provide an advantage over the competition as well as a new source of revenue for Metro.

Coutu is also a large land owner. The company collects rent and a myriad of fees from the 184 buildings the company owns in Quebec, which are franchisee owned.

In my opinion, Metro remains an intriguing investment opportunity for those investors with an eye towards long-term growth.

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