These Grocery Companies Will Be Under Pressure in 2018

Description

In early September, I'd covered rising food prices and how this could impact Canadian grocery retailers. Statistics Canada released its revised data for farm income in 2016 on November 24. Net farm income climbed 4.2% year over year, representing the sixth year of growth in the past seven.

With food prices rising, and grocers adjusting to the new Ontario minimum wage hike, insiders are projecting a dicey 2018 for grocery stocks. Let's take a look at three companies today that have already made major adjustments in anticipation of this crucial year to come.

Metro, Inc. (TSX:MRU) stock has declined 2.1% month over month as of close on November 27. The stock failed to receive a sizable uptick even after releasing solid fourth-quarter earnings on November 22. Metro reported sales of $3.22 billion, up 10.2% from the prior year. It also saw net earnings climb 6.8% to $154.9 million. Metro will cut 280 jobs over the next five years as part of a modernization initiative.

Metro recently announced that it would commit to an expansion of its online services. The threat of **Amazon.com, Inc.** cutting into grocery retail after its Whole Foods Market, Inc. purchase has sparked anxiety among retailers in the U.S. and Canada. Metro, which already offers online delivery services in Montreal and Quebec City, has committed to expanding its catchment and will also be present in Gatineau.

Loblaw Companies Ltd. (TSX:L) stock has fallen 13% since reaching an all-time high of $78.87 back in May 2017. In its third-quarter results, Loblaw posted net earnings of $883 million, representing a 110.7% increase from the prior year.

Loblaw CEO Galen Weston has predicted that 2018 will be a "difficult year" as the company looks to adjust to the $14 minimum wage hike that will trigger in January. Initially, Loblaw estimated that the company would lose $190 million to labour costs due to the hike.

Loblaw announced in October that it would eliminate 500 jobs as part of its efforts to reduce operating costs. In November, the company also revealed that it would close 22 stores that failed to meet its profitability standards. Loblaw has also committed to an e-commerce offering, partnering with the home delivery service Instacart. The company will offer online services to Toronto in December and Vancouver in January.

Empire Company Ltd. (TSX:EMP.A) stock has climbed 58.2% in 2017 after a succession of impressive earnings releases. In its recent fiscal 2018 first-quarter results, the company posted gross profit of $1.53 billion, up $40.2 million from the prior year. The company also reported same-store sales growth for the first time in over a year.

Empire owns Sobeys supermarket locations in Canada. On November 23, Sobeys announced that it would lay off 800 office workers across Canada. This is part of a strategy to centralize its operations instead of counting on regional management. The stock also offers a dividend of $0.10 per share, representing a 1.7% dividend yield.

CATEGORY

1. Investing

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1. TSX:EMP.A (Empire Company Limited)
2. TSX:L (Loblaw Companies Limited)
3. TSX:MRU (Metro Inc.)

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