Why Empire Company Limited Is Down Over 2%

Description

Empire Company Limited (TSX:EMP.A), one of Canada's largest owners and operators of grocery stores, released its fiscal 2018 second-quarter earnings results this morning, and its stock has responded by falling over 2% in early trading. Let's break down the results and the fundamentals of its stock to determine if we should use this weakness as a long-term buying opportunity.

Breaking down the second-quarter results

Here's a quick breakdown of 10 of the most notable financial statistics from Empire's 13-week period ended November 4, 2017, compared with its 13-week period ended November 5, 2016:

Metric	**Q2 2018**	**Q2 2017**	**Change**
Sales	$6,026.1 million	$5,930.9 million	1.6%
Gross profit	$1,473.5 million	$1,400.7 million	5.2%
Adjusted EBITDA	$242.2 million	$181.2 million	33.7%
Adjusted operating income	$138.3 million	$76.2 million	81.5%
Adjusted net earnings	$73.9 million	$32.9 million	124.6%
Adjusted earnings per share (EPS) -fully diluted	$0.27	$0.12	125%
Book value per common share	$13.40	$13.42	(0.1%)
Free cash flow	$117.4 million	$18.9 million	521.2%
Same-store sales growth (decline)	0.6%	(2.8%)	N.M.
Same-store sales growth (decline) excluding fuel	0.4%	(2.6%)	N.M.

Should you buy the stock today?

It was a solid quarter overall for Empire, as its momentum carried over from the first quarter, which capped off a strong first half of the fiscal year for the company. Revenues increased 1.5% to $12.3 billion, and its adjusted EPS increased 51.3% to $0.59 compared with the year-ago period. With these very strong results in mind, I think the market should have responded by sending Empire's stock significantly higher, and I think the weakness represents a great entry point for long-term investors for two fundamental reasons.

First, it's attractively valued. Empire's stock now trades at just 22.9 times fiscal 2018's estimated EPS of $1.11 and only 16.5 times fiscal 2019's estimated EPS of $1.54, both of which are very inexpensive given its current earnings-growth rate and its projected 38.8% long-term earnings-growth rate.

Second, it's a dividend-growth aristocrat. Empire currently pays a quarterly dividend of $0.105 per share, representing $0.42 per share annually, giving it a 1.65% yield. A 1.65% yield is tiny compared to what you can earn in other industries, but it's of the utmost importance to note that Empire's 2.4% dividend hike in June has it on track for fiscal 2018 to mark the 23rd consecutive year in which it has raised its annual dividend payment, making it one of the best dividend-growth stocks in the market today.

With all of the information provided above in mind, I think Foolish investors should strongly consider using the post-earnings weakness in Empire's stock to begin scaling in to long-term positions.

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