Why Metro, Inc. Should Top Your List of Canadian Grocers for 2018

Description

After recently reporting very strong earnings on Tuesday, **Metro, Inc.** (TSX:MRU) shares traded sideways, as investors digested the earnings release amid concerns about long-term headwinds in the grocery retail sector. I believe that 2018 will be a pivotal year for Canadian grocery retailers, as investors will begin to value the potential impact of catalysts for Metro and its competitors, as the country's largest three retailers continue to battle for market share amid deflationary food prices.

One of the catalysts I believe will continue to propel Metro higher when compared to its peers is its recent acquisition of **Jean Coutu Group PJC Inc.** (TSX:PJC.A). This acquisition has the potential to propel the company's growth model forward, as investors look for new revenue streams and increased profitability amid e-commerce-related concerns, given the potential for medical cannabis sales to be approved at Canadian pharmacies across the country.

With Canada's largest grocery retailer **Loblaw Companies Limited** (TSX:L) making headline news with its subsidiary Shopper's Drug Mart making marijuana supply deals with various Canadian cannabis firms, the openness of Metro's Jean Coutu subsidiary to allow Metro to compete in this space should be a catalyst that I anticipate investors will begin to place a higher value on in the coming quarters as Canada nears legalization this summer.

In terms of Metro's fundamentals, I have commented on Metro's superiority to its peers in terms of operating performance in the past. As a long-term play based on fundamentals and balance sheet strength, there is a lot to like about Metro's chances to come out ahead this year, given the company's strong margins and returns investors will (hopefully) place more emphasis on.

Metro's relatively meagre dividend yield has been one of the focal points for some investors hoping for more from the company in terms of capital distributions. At its most recent earnings release on Tuesday, Metro announced it would be hiking its dividend by nearly 11%, supporting dividend growth and anticipation of future dividend growth, given the company's very low payout ratio and strong balance sheet. I expect to see more in the way of dividend increases down the road, and while investors should certainly not focus on Metro's yield as a primary factor when deciding whether or not this company is a better investment than its peers, receiving a higher yield while waiting for capital appreciation over the long term never hurts.

Bottom line

Metro continues to motor along nicely, as evidenced by the company's recent quarterly outperformance. I would expect this trend to continue and would recommend investors considering a Canadian grocery retailer look closer at Metro during the first half of 2018.

Stay Foolish, my friends.

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