



## Should You Buy Low on Canadian Grocers?

### Description

The Canadian Competition Bureau has alleged that Canada's premier grocery retailers have engaged in a wide-ranging bread price-fixing scheme dating back to the beginning of last decade.

Canada Bread Company Ltd. and senior officers from **George Weston Limited** ([TSX:WN](#)) colluded to raise prices with the eventual cooperation of other major retailers. This would result in a \$0.07 price increase at wholesale and an average \$0.10 increase for consumers. The penalties for price-fixing could include fines of up to \$25 million and even significant prison time.

The revelations of price fixing come at an [inopportune time for grocery retailers](#). Companies are already under pressure after an [Ontario minimum wage hike in January](#), not to mention the large shadow of **Amazon.com, Inc.** as it continues its foray into grocery retail. Amazon opened its first Amazon Go store in Seattle in late January, which will rely on cameras and sensors to track purchases by consumers. Amazon also posted a \$2 billion profit in the fourth quarter of 2017, the largest in its history.

The S&P/TSX suffered a 250-point decline on February 2, in line with a steep sell-off in United States and European stock markets. Rising bond yields have battered dividend-yielding utilities, telecom, and real estate stocks. Some of the largest grocery retail stocks have also been plagued by anemic growth in recent years.

**Loblaw Companies Ltd.** ([TSX:L](#)) stock has declined 4.7% in 2018 as of close on February 2. Shares have dropped 3.7% year over year. In the 2017 third quarter, revenue inched up 0.3% to \$14.19 billion, and retail segment sales rose 0.2% to \$13.9 billion. The company declared a quarterly dividend of \$0.27 per share, representing a 1.6% dividend yield.

Michael Medlin, the chief executive officer of Sobeys and its parent company **Empire Company Ltd.** ([TSX:EMP.A](#)), has urged George Weston and Loblaw to prepare for upcoming legal action. This comes after Weston and Loblaw implicated Sobeys in the aforementioned price-fixing scheme, which it vehemently disputes. Empire stock has declined 4.8% in 2018 but is up 43% year over year.

**Metro, Inc.** ([TSX:MRU](#)) has filed applications with Empire for unredacted versions of the allegations,

which reveal the names of the entities making the detailed accusations. Metro stock is down 0.62% in 2018 thus far, but the stock has risen 1.8% year over year.

In the full-year fiscal 2017, Metro reported sales of \$13.17 billion — up 3% from 2016. It also posted net earnings of \$608.4 million, which represented a 3.8% jump from the prior year. Metro declared a quarterly dividend of \$0.18 per share with a 1.8% dividend yield.

The ongoing scandal should inspire investors to steer clear of an industry in the midst of a difficult transition. Loblaw and Metro are shifting into e-commerce, but the threat of Amazon is looming large. There are more stable options for growth and income as we look ahead into 2018.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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

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