What Should You Buy in This Crazy, Volatile Market? Check Out This Defensive Stock for 2018 Outperformance

Description

Empire Company Limited (TSX:EMP.A) is involved in a transformation of sorts. What we are seeing in the company is a renewed focus on efficiency, cost reduction, and on delivering the customer a better offering that is designed to improve customer satisfaction.

And with CEO Michael Medline at the helm, who was responsible for improving **Canadian Tire Corporation Limited's** (TSX:CTC.A) business, we have reason to be optimistic. He has a good track record and has delivered top-notch results in his career.

At this juncture, I would like to review the transformation that CEO Michael Medline led back at Canadian Tire.

The transformation started a few years ago, and the results that were achieved were stellar. The company's same-store sales growth went from being anything but impressive to top notch, with increases of close to 10% store-wide and in the double digits for FGL Sports.

In addition to this, Canadian Tire had grown its EPS from $7.02 per share in 2013 to $9.22 in 2016. In 2016, EPS increased 11.3%. And the shares increased almost 15% in the two years that he led the company and continued to increase thereafter, with a 58% return since early 2016.

So, back to Empire. What are the reasons to get into the stock today?

Beating expectations

The company has been beating expectations in the last few quarters, as improvements are being made across the board.

In the latest quarter, the second quarter of fiscal 2018, the company reported that same-store sales increased, albeit marginally, gross profit margin increased almost one full percentage point, the EBITDA margin increased 116 basis points, and adjusted earnings per share increased 125% to $0.27.

This quarter's earnings were 8% better than consensus expectations, last quarter's earnings were 45% better than expectations, and fourth-quarter earnings were 50% better than expectations.

What that means for us investors is that the company's valuation and stock price should rise, as the market must keep adjusting to the new reality and pricing the shares accordingly.

Project Sunrise

The company put in place a three-year plan to simplify the organization and achieve annualized cost savings of approximately $500 million by fiscal 2020. There will be a one-time $200 million charge in the first half of fiscal 2018, reflecting severance, relocation, consulting, and system developments.

But the company should start to see the benefits of this action plan in 2018.

In summary, here we have a company that is on the road to big improvements, that is in an industry that is defensive, and that is attractively valued.

Those are all great things, especially in today's type of market, where interest rates are rising and valuations in general are quite lofty.

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