



Is Metro Inc. a Buy After Q2 Results?

Description

Investors may be anxious when eyeing [Canadian grocery stocks](#) in 2018. The previous year saw the emergence of the online retail giant **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) as a [serious competitor](#) in the grocery industry after its acquisition of Whole Foods Market, Inc. According to One Click Retail, Amazon sold an estimated \$650 million worth of groceries through its platform in the first quarter of 2018, representing a 50% increase year over year. These numbers illustrate the transformative potential that Amazon could have in grocery retail.

Metro, Inc. ([TSX:MRU](#)) is a Montreal-based grocery and drugstore retailer. Shares of Metro have climbed 1.2% in 2018 as of close on April 30. In late April, the company received authorization from the Competition Bureau to proceed with the acquisition of Quebec drugstore retailer **Jean Coutu Group PJC Inc.** ([TSX:PJC.A](#)). The transaction will close on May 11. Its results will be incorporated into Metro's beginning in the third quarter.

On April 24, Metro released its fiscal 2018 second quarter results. It posted sales of \$2.89 billion, which were down 0.1% year-over-year; adjusted net earnings fell 5.1% to \$108.1 million. The company emphasized that it was dealing with "intense competition" in the second quarter, and expects this environment to continue to present a challenge going forward.

In the first half of fiscal 2018, sales were up 2.3% to \$6.01 billion, with same-store sales climbing 1.1%. Adjusted net earnings increased 3.8% to \$261.5 million. In the second quarter, the company's the board of directors declared a quarterly dividend of \$0.18 per share, representing a 1.6% dividend yield.

CEO Eric La Flèche was confident that broader conditions were favourable for Metro's business going forward. "The strength of the economy in both Quebec and Ontario, combined with low food inflation, currently favour the full-service supermarket," he said. "And we are pleased with the performance of the Metro banner in both provinces." La Flèche said that the introduction of **Loblaw Companies Ltd.** \$25 gift cards in response to the recent bread-price fixing scandal also had a negative impact on customer traffic in the most recent quarter.

In late 2017, Metro pushed to expand its online grocery shopping offerings. The recent success of

Amazon demonstrates how crucial it is for traditional retailers to get ahead of this new competition. Metro currently offers home delivery services in Greater Montreal, Quebec City, and Gatineau. The company plans to introduce online shopping in Ontario later this year.

Grocers may not have too much to worry about in the short term, however. Canadians have been slow to adopt the e-commerce habits of their neighbours south of the border. Online retail sales in 2017 were far below the rates seen in the United States. It is also important to note that beverages accounted for nine out of 10 of Amazon's best-selling grocery products in the first quarter. Whether or not Amazon can carve a significant slice out of the profitable full-basket grocery shop remains to be seen.

Metro will undoubtedly get a boost from its Jean Coutu Group acquisition, which will be reflected in its next round of earnings. Second quarter sales numbers were also negatively impacted by the timing shift in the week before Christmas. The stock has dropped 12.9% year-over-year as of close on April 30, and is worth consideration, boasting a solid dividend at its current price.

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