Better Investment: Loblaw Companies Ltd. (TSX:L) vs. Metro, Inc. (TSX:MRU)

Description

Have you ever wondered which of Canada's leading grocers is a better investment for your portfolio? While similar in offerings, the two largest grocers offer investors a very different long-term growth strategy.

Both strategies could be successful, but only one is a better investment today. Let's take a look at both.

Loblaw has potential

Loblaw Companies Ltd. (TSX:L) is the largest grocer in the country, with over 2,000 stores, and it owns a dizzying array of the most well-known brands and labels in the segment, including President's Choice, No Name, and Life Brand.

While Loblaw has a strong network, and its acquisition of Shoppers Drug Mart several years ago continues to drive revenue and growth prospects, the company reported weaker-than-expected results this past spring owing to the bread-pricing scandal that forced the company to take a $189 million charge, and it handed out gift cards as a make-good gesture to customers.

Another gesture to be popular among customers is a new program announced this week that will provide a year-long supply of Canadian-grown produce to stores in lieu of foreign-source produce. The gesture, which will cost an additional $150 million per year for the company, will greatly support the farming industries in Canada.

This latest gesture continues a string of efforts by Loblaw to support Canadian farmers, who opt to grow traditionally out-of-season crops for year-long consumption. Farms in Ontario and Quebec already include products such as bok choy, napa cabbage, and okra. Similarly, Canadian-grown berries are now available year-round thanks to greenhouses around the country.

Looking at this latest gesture as an investor and as a consumer, there is potential for this initiative to drive up sales and restore the brand after the bread-pricing scandal, but those efforts will be more of a long-term initiative.

Loblaw currently trades just shy of $69 with a P/E of 16.55. The company also provides a quarterly dividend which currently pays a 1.75% yield.

Why Metro should be on your shopping list

Metro, Inc. (TSX:MRU) is the smaller of the two grocers, with a network of just 600 stores primarily in Ontario and Quebec.

Over the past few years, retailers on both sides of the border have been crossing over into other businesses, specifically health and pharmacy companies. Loblaw's acquisition of Shoppers Drug Mart proved to be a pivotal change for the company that resulted in growth and new opportunities through the large network of smaller stores and cross-merchandising opportunities.

With the acquisition of Jean-Coutu, Metro now has that same opportunity, and the company is sure to capitalize on it.

Finally, as with any retailer, there's the question of e-commerce titans steadily making their way into the market. Fortunately, this has been largely avoided so far thanks to the perishable and personal experience involved in grocery shopping. Experts peg the penetration by e-commerce companies into the grocery segment as a paltry 1%.

Still, Metro appears to be well prepared for this. The company began offering a delivery service last year in select areas and is gradually rolling it out further over time, and Metro's acquisition of meal-kit company MissFresh could still mean a Metro-branded service being released in the future.

Metro currently trades at just under $45 with a P/E of 5.94. Additionally, Metro offers investors a dividend that pays a respectable 1.62% yield, which may not be reason enough to invest in the stock on its own, but it's a decent amount that should help grow your investment if reinvested.

Which is the better investment?

Looking at growth potential, Metro has the upper hand in this face-off. The Jean-Coutu deal is sure to be a driver for growth over the next few years, much like the Shoppers deal gave a boost to Loblaw. Additionally, Metro is focused primarily on Ontario and Quebec, and there's a big market outside of those provinces that has yet to be tapped.

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Date
2025/08/19
Date Created
2018/06/27
Author
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