3 Top Grocery Stocks Ranked for 2019

Description

Back in the fall of 2017 I'd discussed why I was reasonably bullish on grocers heading into this year, even in the face of headwinds faced by traditional retailers. The TSX has suffered recently, but two of the top three grocery stocks I'd covered are entering the final month of 2018 in the black.

Several trends are going to make an impact on grocery retailers in 2019. Those include rising prices as retailers buckle under the pressure of higher inflation, the expansion of e-commerce offerings, the changing in-store customer experience, and the shadow of the **Amazon** giant moving into the industry. The top Canadian grocery retailers have all laid out plans to survive and potentially thrive in this new environment.

Today I will rank the top three grocery retail stocks heading into 2019. Should investors bet on a good performance next year? Let's dive in.

Metro (TSX:MRU)

Metro is a Montreal-based grocery retailer that operates in Ontario and Quebec. It completed the acquisition of the Jean Coutu banner in the spring of 2018. Shares of Metro have climbed 12.5% in 2018 as of close on November 26.

Metro released its fourth-quarter results on November 21. Sales rose 15.7% year-over-year on the back of the Jean Coutu acquisition, but excluding its results and the 13th week in 2017, sales were still up 2.5%. Adjusted net earnings surged 35.1% to $161 million and adjusted fully diluted net earnings per share increased 23.5% to $0.63.

The positive earnings report sparked a surge that drove the stock to all-time highs last week. Metro stock is oversold with an RSI above 70 as of close on November 26, but the company looks strong heading into 2019. Investors should wait for a retreat before jumping in.

Empire Company (TSX:EMP.A)

Empire Company owns or franchises over 1,500 stores across Canada. These retailers include

Sobey's, IGA, Foodland, FreshCo, and others. Shares of Empire have climbed 3.8% in 2018 so far and the stock has increased 8.3% over the past month.

Empire had a big September. The company saw adjusted earnings per share rise to $0.37 in fiscal 2019 Q1 compared to $0.32 in the prior year. It announced that two western FreshCo stores would open in Winnipeg in the spring of 2019. Empire also reached an agreement to acquire Farm Boy for a total enterprise value of $800 million. The board of directors declared a quarterly dividend of $0.11 per share, representing a modest 1.2% yield.

The acquisition of Farm Boy, the fastest grocery retailer in Ontario, is promising as Empire heads into 2019. However, like Metro, its stock is not a great value play at its current price.

Loblaw Companies (TSX:L)

Loblaw Companies is the largest food retailer in Canada. Shares have dropped 10.5% in 2018 so far. The stock hit a 52-week low in early November after a reorganization sparked a dramatic sell-off.

Shares quickly bounced back as investors appeared eager to jump on the potential sale. The stock spiked again after the release of its third-quarter results that saw revenue rise 1.8% year-over-year to $14.4 billion and adjusted EBITDA climb 7.5% to $1.3 billion. The board of directors declared a dividend of $0.295 per share, thereby representing a 1.8% yield.

Chairman Galen Weston forecast a difficult year for Loblaws in late 2017. This proved to be an accurate projection, and the company still faces obstacles next year. The stock briefly dipped into bargain territory, but is no longer a strong buy heading into December.

CATEGORY

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

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Author
aocallaghan