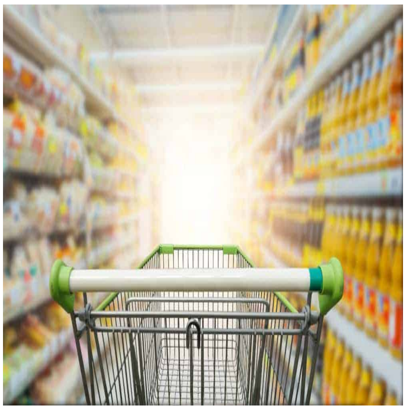

Attention Investors: Metro, Inc. (TSX:MRU) Stock Is Trading at a New 52-Week High

Description

The year 2018 is almost over and will be remembered for the striking increase in volatility on the world stock markets. As investor skepticism about global economic growth and future of equity values increases, so has been the rush to pile up on consumer defensive stocks. The leading Canadian retail giant **Metro** (TSX:MRU) is one increasingly compelling investment today and its share price is breaking new highs.

At the time of writing, Metro's stock price has breached the previous $46.84-a-share 52-week high to trade as high as $47.74 on Tuesday, setting a new high for the year. Metro is enjoying strong growth momentum this year after an accretive acquisition of Jean Coutu Group and posting better-than-expected earnings so far in the year, making the stock one of the best-performing retail trade stocks in 2018.

Impressive quarterly numbers

Metro reported some impressive growth numbers for the most recent quarter that ended in September 2018.

Sales in the last quarter came in 15.7% higher at $3.74 billion as compared to the $3.23 billion recognized in the same quarter last year. Although the top line was mainly boosted by the consolidation of recently acquired Jean Coutu Group, revenue was still 2.5% higher than that achieved in a comparable period last year excluding the acquisition.

Even more reassuring was the significant growth in same-store sales. Food same-store sales rose 2.1% during the quarter and pharmacy same-store sales were up 1.8%. This was a stellar performance, especially for a grocery retailer that is facing serious competition from the emerging online retail business model.

Although diluted net earnings per share were down 15.2% to $0.56 for the quarter, adjusted fully diluted net earnings per share were up an impressive 23.5%, implying a strong growth in the earning potential of Metro's assets and business model.

To top off a good quarter and an impressive financial year, the company reinstated its normal course issuer bid, and the stock-repurchase program could buy back up to 2.7% of the company's outstanding shares by November 2019. This comes after the board increased the retailer's quarterly dividend by 10.8% to $0.18 per share in October and both these moves were bullish on the value of the common shares.

The retailer expects to benefit from significant synergies as it consolidates Jean Coutu operations with its own, as there are substantial cost savings to be realized from the exercise over the next year while the construction of two new automated distribution centres for frozen and fresh products in Ontario, store expansions in the Greater Toronto Area, further investments in e-commerce, and continued investments in the retail store network is expected to sustain revenue growth going forward.

Potential headwinds

Escalating freight costs could chew into Metro's earnings over the next year, while the increases in minimum wages could further eat into profit margins going forward. The retailer's pharmacy chain is performing very well, but some minor slowdown could be posed by Quebec's recent drug reforms that permitted private insurance plans to limit reimbursements of brand name drugs to the lowest-cost generic drug alternative since midyear last year.

Investor takeaway

Metro common stock has good momentum going for it today, providing a good opportunity for momentum investors. Moreover, fears of slowing global economic growth are driving new money into consumer defensive stocks, and Metro provides a compelling offer due to its exposure to both grocery retail and pharmaceutical retailing.

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