Consider This Defensive Investment Option for 2019

Description

New Year's is rapidly approaching. Along with the usual resolutions to eat better, exercise more, and generally improve over 2018, diversifying your portfolio should rank fairly high on that list. Adding to this is the fact that given the turbulent past few weeks that we've witnessed across the market, there's likely a good opportunity to rebalance your portfolio by adding some defensive investments.

One such investment that is worthy of consideration is **Metro** (TSX:MRU).

Why should you consider a grocer?

Grocers, along with utility investments, have the distinction of being necessities of modern society that we cannot do without and, if anything, we take for granted. This necessity and nearly blind acceptance of the need for grocers translates into a steady flow of revenue for the company, which is something often overlooked by prospective investors.

Also noteworthy is the emerging threat of mobile e-commerce.

Traditional retailers have seen their market share and store traffic erode in recent years, as shoppers turn increasingly more towards shopping online. This has led to some traditional retailers closing their doors over the past few years, with several iconic retailers filing bankruptcy in this year alone.

Fortunately, that mobile threat hasn't completely penetrated the grocery market. Grocery shopping remains a personal experience that shoppers still prefer to do on their own, and the fragile and perishable nature of the groceries themselves makes shipping difficult and expensive.

Why Metro?

Unlike most of the market, which experienced a roller-coaster ride into the red, Metro is, at time of writing, up over 15% year to date and flirting within reach of its 52-week high. Much of those gainshave come in the past few weeks, fueled by the strong quarterly results.

In the most recent quarter, Metro saw sales surge 15.7% over the same quarter last year to $3.74 billion, while same-store sales also experienced an uptick of 2.1%. On an adjusted basis, fully diluted earnings for the quarter saw double-digit gains over the same period last year of 23.5%.

In terms of future potential as an investment, there are three key reasons why I like Metro as a core investment.

First, there's the Jean Coutu acquisition. The iconic pharmacy is still being integrated into Metro's sprawling network, so the potential cost synergies from the transaction have yet to be fully realized, even if a chunk of the 15% year-over-year uptick in sales can already be traced back to Jean Coutu.

With Metro's entry into the pharmacy space, the opportunity to leverage the Jean Coutu network to cross-sell Metro products is massive, as it could provide a means for shoppers that either do not want to go into a large Metro store or who are not within close proximity of one to get the products they need while staying within Metro's realm.

An example of this would be Metro's primary competitor **Loblaw**. After acquiring its own pharmacy several years ago, it realized a boost in sales, which remains to this day, that was attributed to cross-selling merchandise from the grocery store into the smaller pharmacy stores.

The second point has to do with that mobile threat I mentioned earlier. While Metro does enjoy a sizable moat for the moment, it is not impenetrable to the changing tastes of the market. To counter that, Metro has begun work on a number of fronts, ranging from its meal-kit service acquisition to trialing and then expanding its delivery service options to customers. Both of these initiatives show promise and should provide revenue growth opportunities for the company in the new year.

Finally, let's talk a bit about growth and income potential. On one hand, Metro's current buyback program, which runs through November of next year, could see the company buy back 2.7% of its outstanding stock, which could be beneficial to investors at that time. On the other hand, we have Metro's respectable, but not exactly outstanding dividend that currently provides a 1.55% yield, which, coincidentally, saw a 10.8% uptick earlier this year.

In my opinion, Metro remains a great investment option to diversify any portfolio.

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