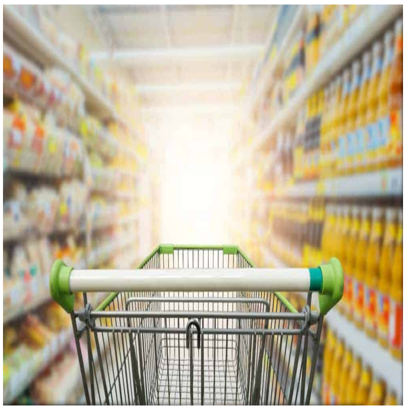

This Grocery Stock Belongs in Your TFSA. Pronto!

Description

Was 2018 a great year for **Empire Company** (TSX:EMP.A) stock or what?

Shareholders of the holding company that owns Sobeys had a total return of 19.0% this past year, 28 percentage points higher than the **S&P/TSX Composite Index**, and that follows 2017's total return of 58.4%.

Imagine how CEO Michael Medline must feel. He was granted a special one-time award of 23,753 performance share units (PSUs) for his contribution to the company in the first few months as CEO. On June 27, 2017, the PSUs were worth $22 a share. Today, they're worth 36% more.

Trading near a 52-week high of $30.62, the highest level since Medline became CEO in January 2017, shareholders are hoping that Medline can continue to work his magic, pushing Empire stock all the way to $40 in 2019.

Can he do it? You better believe it. Here's why.

A transformational acquisition

Most acquisitions tend to be done by enthusiastic CEOs wanting to accelerate a company's growth without considering the ramifications of the deal, both financially and culturally, ultimately leading to mediocre or disastrous results. Fortunately for Empire shareholders, Medline has experience making transformational acquisitions.

Medline had been at **Canadian Tire** for 10 years when he decided to leave the company. It announced his departure in August 2010, but since he wasn't officially going until October, Medline asked if there was anything he could do to pass the time.

The board asked him to look at whether acquiring Forzani Group (Sport Chek) made sense. He thought it did. They asked him if he would run Forzani if they bought it. He would. They acquired Forzani for $771 million in May 2011. It's been a big part of Canadian Tire's growth ever since.

He then became Canadian Tire CEO in 2014 before being replaced by Stephen Wetmore in 2016, the man Medline replaced in 2014.

Another transformational acquisition

Eager to do something special in his career, he couldn't say no when Empire came calling in late 2016.

Initially, Medline's goal wasn't to buy another grocery chain but to turn around Sobeys, which had become a dysfunctional regional operator of grocery stores (Sobeys in the east and Safeway in the west).

Dubbed "Project Sunrise" by the management team, Empire is about halfway through the monumental task of making it a well-oiled, national operator of grocery stores.

In March 2018, I'd suggested that Empire stock would hit $30 by the end of the year, basing my prediction on all the good things Medline and company were doing to boost the margins, while also improving the grocery store's level of efficiency.

Most of the heavy lifting has already been done, which is why Medline couldn't resist making an acquisition that should be transformational for the entire Sobeys network of stores.

In September, Empire announced that it would pay $800 million for Ottawa-based Farm Boy, a premium grocery store that focuses on an urban-suburban customer willing to pay a little more for quality fruits and vegetables operating from a smaller footprint without all the non-perishables like toilet paper getting in the way.

Here's what I said about the deal in September: "Sobeys would like to double the number of stores over the next five years to 52 locations (14 in Ottawa) and $1 billion in annual revenue … As long as it doesn't play with the successful formula that Co-CEOs Jean-Louis Bellemare and Jeff York have built over the last few years, Medline's got another transformative deal on his hands."

Indeed, he does.

The bottom line on Empire stock

As long as Medline and company continue to make progress on Project Sunrise while also rolling out Farm Boy across Ontario, I could see Empire stock hitting $40 by the end of 2019.

If you've got a TFSA, Empire ought to be in it.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:EMP.A (Empire Company Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/06/30
Date Created
2019/01/18
Author
washworth