3 Reasons Why Canadian Food Retailers Are Stocks to Own

Description

With GDP growth forecasts at risk in Canada, and around the world, for that matter, investors would love to find a spot in the market that is not vulnerable to this and other economic shocks.

Food retailers like **Metro** (TSX:MRU) are in this spot, and shareholders in these stocks are enjoying the benefits.

Here are three key reasons why food retailers are the stocks to own in this environment.

Inflation pressures moving to the rear-view mirror

Food prices were up 2.9% in December 2018 relative to the same period last year versus 1.4% in November and 1.7% in October. This, in addition to a rising minimum wage, has been a headwind for retailers.

For their part, food retailers have dealt with this inflation before, and margins are expected to hold steady — as they can pass through some of this inflation to consumers — and as they continue to focus on efficiencies and better merchandising strategies.

Metro's latest quarter came in as expected, with EPS of $0.63 versus $0.51 for an increase of 23.5%, buoyed by the Jean Coutu acquisition.

Loblaw Companies (TSX:L) has successfully used its scale in order to drive operating efficiencies and to drive value for the consumer, driving a three-year annual EPS growth rate of over 12%, accelerating sales and margin improvements.

Defensive

Metro's recession-proof business has shown itself to be resilient in difficult economic times, as food is not something consumers can go without.

These days, everything seems to be working for Metro, as earnings growth, dividend growth, and investor sentiment remain positive. Going forward, the Jean Coutu acquisition will continue to add efficiencies to the business and dollars to the bottom line.

Loblaw is a similar defensive story benefiting from the stability of its industry, driving dividend increases and a 15% one-year return on the stock.

No matter the debt levels or interest rate levels, these stocks will prove resilient due to their defensive characteristics and strong operating performance.

Stability

Reflecting the stability and predictability of these companies' results, their respective stock prices have also shown stability.

In the last three years, Metro stock price has pretty much traded in the $40-50 range without too much volatility relative to many other TSX stocks, and for a three-year return of almost 25% — all while paying investors a growing dividend, which is currently at $0.72 per share.

Loblaw stock has traded in the $52-63 range during this same period for a three-year return of just over 21%, all while paying investors a growing annual dividend, which is currently at $1.18 per share.

Empire Companies (TSX:EMP.A), is worth a mention here. It's in the same defensive industry, but its stock has been anything but stable. But for those investors who got in at any point in the last three years, they have done really well for a three-year return of 18% and a double from its late 2016 lows.

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