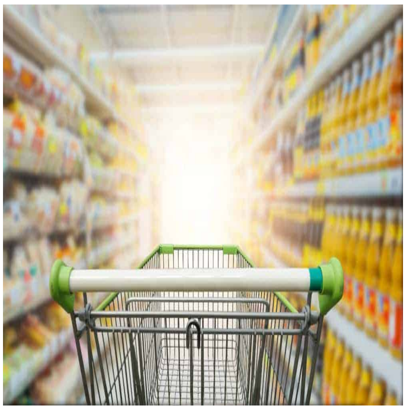

3 Reasons Why This Retail Stud Is a Screaming Buy Today

Description

Some investors choose to avoid the retail sector altogether, knowing that, ultimately, consumers will prefer the lowest price. This obviously isn't good for a retailer's margins.

Other investors approach the sector in a more nuanced way. They recognize that price will always be an important factor, but consumer choice is much more complex than that. Certain retailers do a nice job of managing that balancing act, and their stock price reflects that.

One of Canada's best-performing retail stocks over the last decade has been **Metro** (TSX:MRU), which has seen its shares rise by nearly 300% since March 2009. Yes, that period of time pretty much perfectly reflects buying at the bottom of the Great Recession, but it's still an impressive performance nonetheless. Add in reinvested dividends and the total return is close to 350%.

This retail stud isn't done yet. Here are three reasons you should be looking to add it to your portfolio today.

Expansion opportunities

Following in the footsteps of one of its biggest competitors, Metro finally made the obvious acquisition analysts have been predicting for years now.

The 2018 acquisition saw Metro acquire Quebec pharmacy giant Jean Coutu Group for $4.5 billion. This immediately made the company a major player in Quebec, adding some 700 Jean Coutu pharmacies to its own presence in the province.

Results of the deal have been positive thus far, as reflected in Metro's most recent quarterly earnings. Revenue was up 27% versus the same quarter last year, largely because of the acquisition. The company is also projecting annual synergy cost savings to hit $28 million in the short term and $70 million overall.

This could be just the beginning of the company's expansion plans. Remember, Metro really only has a presence in Ontario and Quebec. The company could look at acquiring a pharmacy chain like Rexall or perhaps a smaller independent grocer. Or it could grow a western business from scratch.

Fantastic operators

There's one simple reason why Metro has consistently posted increasing earnings driven by stronger same-store sales. Management does a good job making the company's stores welcoming for customers.

Metro focuses on both upper-class and price-conscious customers, depending on the type of store. Its Metro and Metro Plus locations cater to folks looking for a higher-end grocery experience, while the Super C and Food Basics banners combine a discount retailer with a little bit of Metro's higher-end charm. This allows the company to cover the two main types of grocery shopper.

And then there's potential for online grocery. Metro is well positioned to be a leader in this segment of the market, simply because its stores are located in areas with heavy population density. The model can work in that environment. I'm not sure it can in the suburbs.

Dividend-growth stud

Metro raised its dividend in 2018 to $0.7025 per share on an annual basis. And it has already raised the distribution in 2019 to $0.80 annually per share. That's some impressive short-term growth.

Metro has quietly become one of Canada's premier dividend-growth stocks; 2019's increase marks the 25th consecutive year the company has hiked the payout, which is one of Canada's longest active dividend-growth streaks.

Look for this growth to continue. The payout ratio was just over 30% of adjusted earnings in 2018, and the bottom line is growing about as fast as the dividend.

Although Metro shares only yield a somewhat paltry 1.5%, the dividend growth more than makes up for that.

The bottom line

Simply put, Metro continues to deliver. The company combines impressive operational results with significant expansion potential and one of the best dividend-growth histories in all of Canadian business. What's not to like? Even at close to a 52-week high, Metro shares still look like a great long-term investment.

CATEGORY

1. Dividend Stocks
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