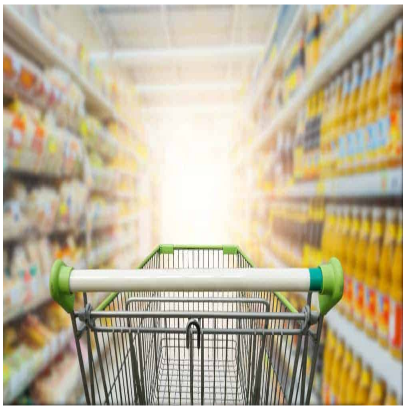

Better Buy: Loblaw (TSX:L) vs. Metro (TSX:MRU)

Description

Grocery stores haven't historically been among the best performers on the TSX. Although they had a good run in the 90s and early 2000s, the major grocery chains **Loblaw** (TSX:L) and **Empire Company** (the owner of Sobey's) began tanking in the 2000s and haven't really recovered. Loblaw started sinking in 2006 and is only up 5% since its 2005 high. Empire Company, for its part, began falling in 2014 and is only up 4% since then.

You could have picked better investments than Canadian grocery stores over the past two decades. However, this year they seem to be making a comeback. Two of the best performers year to date have been Loblaw and **Metro** (TSX:MRU), up 8% and 7%, respectively. Both of these companies have seen solid earnings growth over the past five years and have done well in the markets, too.

If you want to invest in the grocery sector, either of these two companies would be a worthy pick. However, if you want to know which between the two of them is the best, here are three things to take into account.

Growth

Both Loblaw and Metro are growing earnings over the long term. From 2015 to 2018, Metro increased its earnings from around $500 million to over $1.7 billion. In the same period, Loblaw grew earnings from $598 million to $766 million. Metro's earnings growth has definitely been a bit faster than Loblaw's, and that's not the only metric it comes out ahead on either.

Profitability

Metro is more profitable than Loblaw by most of the relevant metrics. You may have noticed in the last section that Metro brought in more earnings last year than Loblaw did. What wasn't mentioned was the fact that Loblaw has about three times the revenue Metro has. This implies that Metro is more profitable. And, in fact, we can see that Metro has a profit margin of 4% to Loblaw's 1.64%. Metro also has a higher return on equity at 12.3% to Loblaw's 5.5%.

Income potential

A final factor worth looking at when comparing two stocks is income potential. Both Metro and Loblaw pay dividends, and this is one category where Loblaw has the edge. Whereas Metro yields just 1.45% based on current prices, Loblaw yields 1.79%. Neither of these yields are overly high, but they're significant enough to make a difference in your total return. It should be noted that Metro has a higher dividend-growth rate than Loblaw, so it may have a higher yield it some point in the future.

Foolish takeaway

Grocery stores aren't the sexiest stocks in the world. With low profit margins and lukewarm growth, it's not hard to see why. Quite simply, grocery is not a high-growth sector. However, it's fairly safe and stable compared to other industries. If you want some safety and stability in your portfolio, Metro shares might be a good bet.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)
2. TSX:MRU (Metro Inc.)

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andrewbutton