Safe Stocks in a Falling Market

### Description

During periods of market uncertainties, many investors reassess their stock portfolios. Generally, the tendency is to seek protection against heightened volatility. The preference shifts from growth stocks to consumer defensive stocks. There is safety in companies where it's business, as usual every day.

**Empire Company Limited** (TSX:EMP.A) and **Metro Inc.** (TSX:MRU) are perfect examples. Since these top Canadian grocers deal with staples, demand for their products is never-ending. On the stock market, grocer stocks are not your typical high-flyers, but they're less vulnerable to market pullbacks.



Choosing between the two stocks is not complicated. Both will experience price drops lasting consecutive sessions, but a rebound or uptrend usually follows. A price reversal could also mean a buying opportunity. Empire and Metro are known dividend payers too, with each paying less than 2.0% dividends.

## Food and pharmacy leader

Metro is bigger than Empire in terms of market capitalization, so let's review it first. The company started as a grocery retailer when it was established in 1947. After nearly four decades of successful operations, ventured into the pharmaceutical space.

That pivotal move in 1986 changed Metro's destiny. Today, it's the food and pharmacy giant and Canada's third-largest grocer. About 600 food stores scattered in Quebec and Ontario, carry the Metro or Metro Plus brand. The pharmacy side is composed of 650 drugstores and pharmacies. Clearly, Metro is a household name.

The combined food and pharmacy business have generated an average of $13.4 billion in revenue in the last three years. Net income has also increased during the same period. In 2018, the reported net income of $1.7 billion was a 190% jump from the previous year. For the current year, estimated growth is 13.90%.

## A strong business platform

Empire is not far behind Metro as a well-managed grocer and investment prospect. The company is into the food retailing business, but is complemented by investments in the real estate business. The business mix is quite unique, yet it has consistently delivered the desired results.

Empire's food retailing business is actually under the auspices of wholly-owned subsidiary Sobeys Inc. You will find out about 1,500 retail stores and over 350 fuel locations strategically operating in the provinces of Canada and the communities in the periphery. Empire's geographic reach is on par with Metro's.

The Stellarton-based conglomerate owns 41.5% of open-ended Canadian real estate investment trust Crombie REIT. What they have are income-producing properties across Canada. The business outlook is just as good, with an earnings growth estimate of 15.7% in 2019. Income in the last couple of years is steady at $159 million average.

## Incontestable investment protection



As mentioned earlier, grocer stocks are consumer defensive stocks. Empire (+8.46%) is doing slightly better than Metro (+4.18%) year to date. Price-wise, the stocks are trading very close to their respective 52-week highs.

But given that we're trying to determine which grocer is the safer investment, the verdict is a tie. The deciding factor is the accompanying business attached to the core retailing business, pharmacy or real estate.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. TSX:EMP.A (Empire Company Limited)
2. TSX:MRU (Metro Inc.)

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