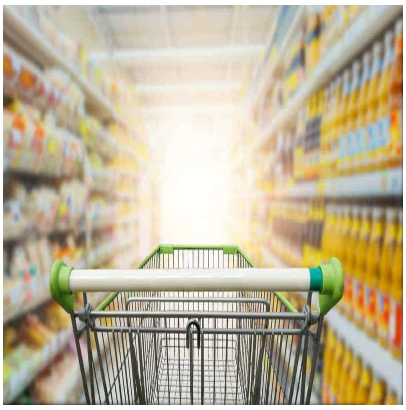

Why Metro (TSX:MRU) Is the Ultimate Grocery Stock

Description

Between Food Basics, **Metro** (TSX:MRU), and Jean Coutu, you would be hard pressed to find a Canadian that has not set foot in one of these stores.

As an investor, this should be exciting news for you, as it indicates that Metro has a strong footprint across Canada as it owns all three brands.

Metro's recent notoriety comes from its acquisition of Jean Coutu which is a leader in the Quebec pharmacy industry. The grocery giant paid $4.5 billion in the form of cash and Metro stock, and it expects combined revenues of $16 billion and annual savings of $75 million after three years.

From FY 2014 to FY 2017, net income increased from $447 million to $592 million, which represents a compounded annual growth rate of 7.28%.

Metro's future success in the grocery industry will be dependent on the outcome of its acquisition of Jean Coutu and its net income.

Synergy from Jean Coutu acquisition

The first quarter after acquiring Jean Coutu, Metro's sales increased by 15%. This caused its stock price to increase 4% to $44.54

Food same-store sales increased 2.1% while pharmacy same-store sales increased 1.8%. The plan is to have Jean Coutu carry some of Metro's private label Selection and Irresistibles products, while Metro carries Jean Coutu's private label beauty products.

This move is similar to the one made by **Loblaw** in 2013, whereby it acquired Shoppers Drug Mart for $12.4 billion in cash and stock. For those of you who have set foot in Shoppers Drug Mart, you will have noticed that it carries many products from the President's Choice label, which is wholly owned by Loblaw.

If Metro is able to replicate the success of Loblaw, then investors should expect to see continued growth in its stock price.

Increasing net income

Metro's net income has increased 32% from FY 2014 to FY 2017, which represents a compounded annual growth rate of 7.28%.

What makes this figure impressive is the fact that the grocery industry is very competitive, and the margins are slim. Thus, for Metro to increase its bottom line by 7.28% each year, it has a successful strategy for growth.

As Canada's population grows, you can expect this figure to increase.

Bottom line

If the choice was between Loblaw and Metro, I would recommend Metro without hesitation.

There is an old adage that says you should always invest in the second-best company, because the best company is the one that makes the mistakes and the second best learns from it.

The case of Metro is no different as the grocery industry is highly competitive, which means grocery stores must find creative ways to win over customers.

Metro's competitive advantage is two-fold. Firstly, the company recently acquired Jean Coutu, which means that its retail presence increased exponentially. Secondly, the company has increased its net income every year since FY 2014, which cannot be said about Loblaw.

Simply put, Metro is a great company with great growth potential.

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