



Attention: What Will Happen to This 1 Stock in 2020?

Description

Empire ([TSX:EMP.A](#)) is a Canadian company specializing in food retailing and related real estate. The food retailing division represents almost all of the company's income. Its network consist of more than 1,500 stores in 10 provinces under the retail banners including Sobeys, Safeway, IGA, Foodland and FreshCo, to list but a few.

Through its real estate division, [it is invested in Crombie REIT](#), which is a publically traded real estate investment trust listed on the TSX. Empire reports a market capitalization of \$8.36 billion with a 52-week low of \$27.61 and a 52-week high of \$37.43.

Intrinsic price

Based on my calculations, using a discounted cash flow valuation model, I determined that Empire has an intrinsic value of \$25.47 per share. Assuming less-than-average industry growth, the intrinsic value would be \$25.19 per share, and higher-than-average industry growth would result in an intrinsic value of \$25.75 per share.

At the current share price of \$30.75, I believe Empire is slightly overvalued. Investors looking to add a grocery and real estate company to their TFSA or RRSP should consider following Empire's stock through 2020 and wait to [buy shares](#) when the price dips below intrinsic value.

Empire has an enterprise value of \$8.9 billion, which represents the theoretical price a buyer would pay for all of Empire's outstanding shares plus its debt. One of the things to note about Empire is its leverage, with debt at 19.6% of total capital versus equity at 80.4% of total capital.

Financial highlights

For the six months ended November 2, 2019, the company reported a strong balance sheet with \$1.7 billion in positive retained earnings, down from \$1.9 billion as at May 4, 2019. Positive retained earnings are a good sign for investors, as it suggests the company has more years of cumulative net

income than net loss, which is reinvested into the company.

The company has cash and equivalents of \$404 million with \$449 million of short-term debt obligations, which is not enough to cover its current liabilities. Given the history of the company, I would like to see it have enough cash on hand to meet its current debt obligations; however, I am not overly concerned about this, as the company has access to a \$250 million credit facility that was undrawn as at May 4, 2019.

Overall revenues are up materially from \$12.7 billion to \$13.2 billion in 2019 (+4%), which resulted in strong operating income of \$553 million (up from \$348 million in 2018). Pre-tax income of \$411 million for the period (up from \$302 million in 2018).

Senior management remains committed to reducing its long-term debt, as indicated by a \$54 million pay down in 2019 (down from a \$543 million pay down in 2018). The company also paid down \$231 million on its credit facilities in 2019 which is offset by a \$478 million draw in 2018.

Empire exercised its normal course issuer bid during this period and spent \$52 million repurchasing and cancelling Non-Voting Class A shares. This is a strategy often used by senior management to indicate it believes the current share price is undervalued.

Foolish takeaway

Investors looking to buy shares of a grocery and real estate conglomerate should follow Empire into 2020. At a current share price of \$30.75 compared to its intrinsic value of \$25.47, I believe that Empire is slightly overvalued at the moment but remain optimistic about opportunities to buy shares in 2020.

The company has rock-solid financials with positive retained earnings, increasing sales, and a debt-reduction strategy, which will undoubtedly reward investors in the long run.

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