This Large Cap Grocery Giant Is a Good Buy for 2020

Description

Good businesses fight through tough times. It helps if the business operates in an essential space and has consistently given good returns to its shareholders.

With annual sales of more than $16 billion, **Metro Inc** (TSX:MRU) is a food and pharmacy leader in Canada, with particularly strong markets in Québec and Ontario.

The company operates or services a network of more than 600 food stores under several banners including Metro, Metro Plus, Super C and Food Basics, as well as of more than 650 drugstores primarily under the Jean Coutu, Brunet, Metro Pharmacy and Drug Basics banners.

Financial highlights

The company reported its results for the fiscal first quarter of its 2020 financial year, with total sales reaching $4.03 billion versus $3.98 billion last year, an increase of 1.3%. Same-store sales were up 1.4% for the quarter.

Pharmacy same-store sales increased by 3.6%. During the quarter, Metro captured $50 million in cost synergies related to the Coutu acquisition compared to $11 million for the same quarter last year, which represents synergies of $65 million on an annualized basis.

Gross margin stood at 19.6% of sales compared to 19.4% for the same period last year. Adjusted EBITDA stood at $370.6 million. That’s up $57.4 million and represented 9.2% of sales versus 7.9% for the corresponding quarter last year.

The company reported a profit of $170.2 million for the quarter compared with a profit of $203.1 million in the same quarter the previous year. However, you have to account for the sale of its Colo-D Inc investment last year to explain the profit difference.

Strong dividend growth

When a company is assured about its future growth and cash flows, it raises its dividend. That's exactly what Metro did this quarter. The board of directors declared a quarterly dividend of $0.225, a 12.5% increase over the previous quarterly dividend.

The annual dividend payment will represent about 31% of fiscal 2019 adjusted net earnings. The company has said that it's comfortable with moving the dividend payout from the 20% to 30% payout range to the 30% to 40% range.

Metro made two major moves in the quarter. The first one was selling off MissFresh, its ready-to-cook meals business to Cook it, another Montreal player that operates in the same space.

Metro recorded a net after-tax loss of $4.2 million on the deal. Cook it will now serve both its current and MissFresh customers. Customers will be able to continue to pick up their ready-to-cook meals at participating Metro stores.

The second move was acquiring a minority interest in Groupe Première Moisson in a cash deal of $51.6 million. E-commerce sales continued to grow for Metro, albeit they are still a very modest percentage of total sales.

Analysts have given Metro shares an average target price of $57 — a 5.69% gain from current prices. But this figure doesn't capture the true potential of the grocer.

In fact, according to Fool contributor Chen Liu, the intrinsic value of a Metro share is $148.51! That translates into a whopping 173% gain from current prices.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/09/04
Date Created
2020/02/04
Author
araghunath