



Invest Like Warren Buffett With This Winning Canadian Stock

Description

It's hardly an original strategy, but that doesn't stop many folks from riding Warren Buffett's coattails.

The logic is simple. If an investment is good enough for the Oracle of Omaha, then it's good enough for most other investors. Buffett, to his credit, doesn't really discourage the practice either. He remembers the days when his tight-knit community of value investors were "inspired" by each others' ideas.

With that in mind, let's check out Buffett's latest investment and a way Canadian investors can copy it while still investing domestically.

Buffett's latest move

Berkshire Hathaway released its 13F filing last week, and for the most part, there was little change in the company's top holdings. Buffett's big bets continued to make all the headlines.

But there were a few interesting tidbits buried in the filing, including a curious new position in **Kroger**. Berkshire's position is worth approximately US\$570 million, which makes it a relatively small position. Still, the stock has reacted nicely to this new reality, with shares up some 5% since the news came out.

Something curious about this new position is how it contradicts some of Buffett's earlier opinions. He and partner [Charlie Munger](#) have been critical about the retail industry before, pointing out that headwinds like low margins and plenty of competition make the sector a poor choice for investor dollars.

But at the same time, it's not that difficult to see what Buffett sees in the industry. Grocers are a good defensive play if you believe a recession is about to hit. Even after the Buffett bump, Kroger shares are relatively cheap. And the company's network of some 2,800 stores spread across 35 different states might become even more valuable if web-based grocery shopping really takes off.

Rather than rushing out and buying Kroger shares, perhaps Canadian investors should choose what I'd argue to be a better company — a grocer that has consistently posted excellent results and has

grown shareholder wealth tremendously.

Canada's finest grocer?

If you look at long-term results, it isn't even close. **Metro** ([TSX:MRU](#)) has been Canada's best grocery stock over the last couple decades by a huge margin.

On a split-adjusted basis, Metro shares have soared from just over \$3 each back in February 2000 to today's level of just under \$56 each. That works out to a compound annual growth rate of more than 15% annually, and that doesn't even include dividends.

It's easy to argue the company still has plenty of growth potential ahead of it, too. It has focused entirely on the Ontario and Quebec markets, with a stated emphasis on the lucrative Toronto to Montreal corridor. It has also expanded successfully into the drug store business after acquiring Quebec-based Jean Coutu. In total, Metro has some 950 grocery stores operating under different banners and some 650 pharmacies.

Metro puts a lot of emphasis on its return on equity, which has exceeded 12% for 27 consecutive years. The company is able to do this by renting its locations — a move that greatly reduces the capital needed to expand. Metro's execs know cash is precious, and renting allows the company to expand while keeping the balance sheet in good shape.

The company also posts consistently good results, primarily because it's focused on markets that are experiencing good economic growth. In 2019, excluding the sales bump from acquiring Jean Coutu, Metro increased its top line by 3.2%. Those strong results have continued into this year, with pharmacy sales up 3.6% for the first three months of fiscal 2020.

If you're into [dividend growth](#), then you're going to be really excited about Metro's payout. Although the yield today is a somewhat disappointing 1.4%, the company has boosted the distribution for 25 consecutive years, including an 11% raise last year. That's some impressive growth.

The bottom line

With respect to Warren Buffett, I believe Metro to be the superior investment over Kroger today. Metro has it all, including exposure to a great part of the market, solid results both over the short and long term, and a history of great returns. It's the kind of stock that would look great in your portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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

Tags

1. Editor's Choice

Date

2025/08/25

Date Created

2020/02/20

Author

nelsonpsmith

default watermark

default watermark