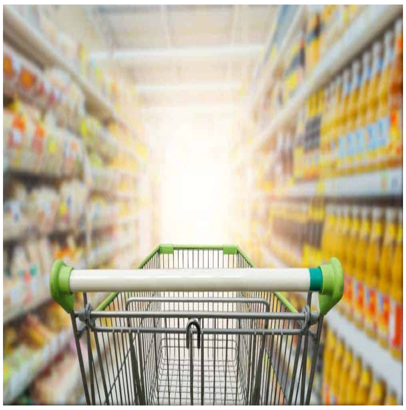

Which Grocer Should You Invest in?

Description

Some of the most interesting (and profitable) investments stem from businesses that we interact with on a daily basis. Many of these businesses provide a service to us that we take for granted, and it's that sense of necessity that makes some of those businesses great investment options.

An example of this is your local grocery store. Grocers are interesting investment options in that they perform a necessary service to us, much like a utility does, but unlike a utility bill, most of us enjoy buying groceries.

Today, let's take a look at **Loblaw** (TSX:L) and **Metro** (TSX:MRU) to determine which grocer is the better fit for your portfolio.

The case for Loblaw

Loblaw is the larger of the two grocers, with a network of over 2,000 locations across Canada, including over 1,300 Shoppers Drug mart locations, Shoppers is the largest pharmacy in Canada and has benefited from the cross-selling of Loblaw-branded products in its stores in recent years.

Speaking of brands, Loblaw benefits from owning some of the most well-known brands, including President's Choice and Life Brand. The company has also branched out into other areas in recent years, including offering financial services through its PC Financial arm and its clothing line Joe Fresh.

The most recent quarterly results are for the fourth quarter of 2019, announced earlier this year. In that quarter, Loblaw reported revenue of $11,590, reflecting an increase of 3.3%, or $372 million over the same period last year. Both the food and drug retail segments saw growth of 1.9% and 3.9%, respectively.

Adjusted EBITDA came in at $1,205 million, reflecting a $310 million, or 34.6% improvement over the same quarter in fiscal 2018.

In terms of a dividend, Loblaw offers investors a quarterly payout that works out to a 1.78% yield, which probably won't resonate with investors looking for a dividend stock. The flip side of that argument is that Loblaw is a defensive investment in that people continue to buy their groceries irrespective of the economy, and Loblaw has hiked the dividend on a nearly annual basis for several years.

At time of writing, Loblaw trades at $69.50 with a P/E of 24.91.

The case for Metro

With a network of 950 food stores and 650 pharmacy locations, Metro is the smaller of the two companies. Unlike Loblaw's presence across most of the country, Metro's footprint is limited to Quebec and parts of Ontario.

In terms of results, the most recent available results are for the first quarter of 2020, which were released in December of 2019. During that quarter, Metro reported sales of $4,029.8 million, reflecting an increase of 1.3% over the prior year. Similar to Loblaw, much of that growth stemmed from the pharmacy segment, which saw same-store sales surge 3.6% in the quarter. Across Metro's food segment the company saw same-store sales increase by 1.4%.

Adjusted net earnings for the quarter came in at $180.9 million, up 5.1% over the same period last year. Metro also announced a hike to its dividend in the amount of 12.5%, reflecting a payout range of 30-40% of the adjusted net earnings of the prior year. Metro's dividend currently works out to a 1.45% yield.

Metro currently trades at just over $55 with a P/E of 20.75.

The better investment

Both Metro and Loblaw make compelling investment cases. Both have growing networks of stores, and both offer a complementary pharmacy network that benefits from cross-selling and easier access to new markets.

That being said, in my opinion, Loblaw is a better investment at the moment. Loblaw's larger more diversified network of stores lends itself to a larger market of customers, with more growth potential.

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2. TSX:MRU (Metro Inc.)

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