



Grocers Are Open: Stock Your Pantry and Portfolio

Description

As more of the country adopts social-distancing practices, the need to shore up on [defensive stocks](#) has never been greater. While utilities and telecoms are often regarded as great defensive investments, grocers represent another intriguing option.

In recent weeks, consumers have flocked to grocers to buy up a variety of perishables to weather a two-week (or longer) stint of social-distancing. One such grocer is **Metro** ([TSX:MRU](#)).

Neighbourhood grocer = great investment?

Metro is an interesting investment option. Metro has an established network of approximately 1,600 supermarkets and pharmacies that are primarily across Ontario and Quebec. By providing the core staples that people need to survive, grocers have managed to escape the larger problems that are plaguing other retailers and businesses. The same could be said of Metro's pharmacy business, which has also been deemed essential.

As an investment, Metro's wide defensive moat remains a key reason why the grocer is one of a handful of companies that have escaped steep losses in the past month. As at the time of writing, Metro is nearly flat over the past month and is still trading up 2% year to date. By way of comparison, the TSX Composite is down well over 20% year to date.

Like other grocers, Metro has seen an influx of shoppers in recent weeks. That trend is unlikely to end anytime soon. A two-week lockdown on most businesses started this week in Ontario, and further restrictive actions will lead to a greater number of customers.

Also worth noting is Metro's online shopping and delivery service. The service has been steadily rolling out to more locations over the past year, and the current pandemic may expedite that rollout further.

What about results?

In terms of results, we're still a few weeks out from Metro releasing results for the second quarter of 2020. As that report will include some of the period that spans this recent volatility, it's best to look back at the last quarter.

In that quarter, Metro saw sales come in at \$4,029.8 million, reflecting gains of 1.3% over last year. During that period, both food and pharmacy same-store sales increased by 1.4% and 3.6%, respectively. Overall, Metro saw adjusted net earnings come in at \$180.9 million, reflecting a 5.1% increase for the grocer.

One final point for prospective investors to note is Metro's quarterly [dividend](#). The grocer currently provides a respectable 1.45% yield, which has been subject to annual upticks over the years. Metro has set those increases to fall within 30-40% of the adjusted net earnings in the prior year. The most recent uptick came in the prior quarter, with shareholders seeing a handsome 12.5% bump.

What should you do?

This is a volatile market. Governments are investing heavily in keeping businesses and consumers solvent, while we exercise social distancing. While grocers have been largely immune to closures so far, further actions, such as restricting traffic to stores or limiting access to stores for certain age groups, remains a possibility.

In my opinion, Metro remains a stellar option for long-term investors looking for a defensive stock.

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Author

dafxentiou

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