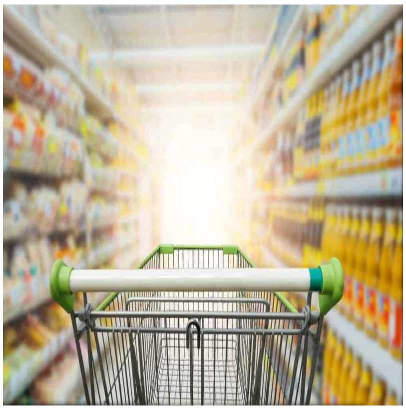

Market Rally 2020: Should You Buy This Defensive TSX Stock?

Description

Stock markets are in a state of turmoil. It's getting difficult to choose companies without insight into what's in store for the future. A lot of folks who were convinced that oil companies were great bargains must have felt their hearts sink as the oil prices went negative.

Oil supply is building, and the world doesn't have space to store it. During times like these, you'll want to buy stocks that won't shock you if the tide continues to ebb but will also give your portfolio a boost when the markets finally turn around.

Empire Company's (TSX;EMP.A) key businesses are food retailing, through wholly owned subsidiary Sobeys, and related real estate. The company clocks $25.8 billion in annualized sales and has $14 billion in assets. Empire, along with its subsidiaries, franchisees, and affiliates, employs approximately 123,000 people. The company put out a business update on April 15, as it copes with the COVID-19 outbreak.

What does Empire expect in 2020?

Empire sales have been going up since the outbreak of the virus, as customers began to stock up in preparation for possible stay-at-home requirements. Same-store sales growth for the four-week period starting March 8, excluding fuel and Easter, was approximately 37%.

Demand continues to go up for canned goods, baking supplies, and cleaning and sanitization products. There could be a shift in consumption percentage from restaurants and hospitality businesses to grocery stores for as long as stay-at-home restrictions remain in force.

As Canadians order online instead of stepping out, Empire's e-commerce businesses in Quebec through IGA.net and in B.C. through Thrifty Foods have seen a significant increase in orders through this pandemic.

Online grocery penetration is growing dramatically across the country, and Empire management anticipates that this will likely remain elevated in the long term, as customers become more comfortable with online grocery delivery.

The customer launch of Voilà, Empire's online grocery home delivery service, has been accelerated to meet the increasing demand from customers for delivery.

Why its business is stable

A key to Empire's stability in the last month has been the resilience of its supply chain. Automated distribution centres have enabled high-velocity restocking of stores. Supplier partners have responded to incremental demand by adding capacity, improving efficiency, and finding innovative ways to deliver to stores.

Empire's ability to maintain a resilient supply chain that may be impacted by suppliers' ability to continue to keep their supply chains safe from the pandemic and operating at full capacity will play a key role in determining the company's fortunes during this lockdown.

The company's 350 fuel locations have seen a decrease of around 40% since March 1 due to reduced sales driven by travel restrictions and country-wide lockdown.

Empire's balance sheet remains strong with significant free cash flow available. Empire has access to approximately $825 million in unused bank facilities that do not expire until 2023.

Empire is a solid company with an essential business that will continue to see sales take place, even during a lockdown. It's a good defensive stock to have in your portfolio. While the broader markets are down 20% from record highs, Empire stock has fallen less than 10%.

CATEGORY

1. Coronavirus
2. Investing

POST TAG

1. Editor's Choice

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1. TSX:EMP.A (Empire Company Limited)

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