This TSX Stock Has Been a Star Performer During the COVID-19 Pandemic

Description

While most businesses and sectors have struggled to come up with a business model to combat the COVID-19 pandemic, a few sectors, namely grocery and utilities, have benefitted from the situation. As people have been forced to sit at home, they have ensured that they stock up on food and other essentials. And if you are a company that happens to supply these, the last three months have been very good.

Nova Scotia-based **Empire** (TSX:EMP.A) is a grocer that operates through wholly owned subsidiary Sobeys. It reported its fourth-quarter and full-year results for the fiscal ended May 2, 2020, and the numbers are stellar.

The company reported annual sales of over $26.6 billion — an increase of 5.4% year over year. For the fourth quarter (the COVID quarter), same-store sales excluding fuel increased by 18% to $7 billion. The company's net earnings for Q4 were $181.2 million, an increase of 43.2% compared to $126.5 million in 2019.

Empire continued its 25-year dividend-growth streak by declaring a quarterly dividend of $0.52 per share, an annualized increase of 8.3%. Empire's forward yield is now 1.54%.

Empire's focus on cost cutting

Empire announced and launched Project Sunrise in 2017, a three-year, $500 million cost-cutting plan to streamline its operations and simplify its organizational structure. Empire says Project Sunrise has exceeded expectations in 2020. It lowered costs by $250 million in fiscal 2020, taking the total benefit tally to $550 million, an increase of $50 million from its original estimates.

On May 2, 2020, Empire had over $1 billion in cash and cash equivalents. It also had access to around $761 million in credit facilities. Further, its $525 million of non-revolving credit access expires at the end of this calendar year, and Empire anticipates that it will renew them before the expiry date.

COVID-19 impact and outlook on this TSX company

Canadians are leaving their homes less since March, but their food basket size is getting larger, as they try and reduce their exposure to the virus. Even as same-store sales increased by 18% for Empire, fuel sales reduced by around 40% due to lower demand and the huge fall in oil prices.

Empire also says that there is a strong change in consumer consumption, as people spend on groceries rather than restaurants and hospitality. The company expects this trend to continue.

Online grocery sales in Canada have tripled since the pandemic, and Empire has benefitted from it. The company says its "e-commerce businesses in Quebec and B.C. have experienced exponential growth and have septupled sales since the crisis began."

Empire also launched Voilà, its online grocery home delivery service on June 22 in the Greater Toronto Area. The company says that Voilà is expected to "have a dilutive impact of approximately $0.05 on adjusted earnings per share on the first quarter of fiscal 2021 as it ramps up its operations."

According to the company's press release, robots will assemble Voilà orders, resulting in minimal product handling, and the last-mile delivery will be handled by Voilà representatives.

At $32.82, the stock is a little less than $5 shy of regaining its 52-week high. Analysts have given Empire stock a target of $40, and as the company continues to expand, expectations should be realized soon.

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