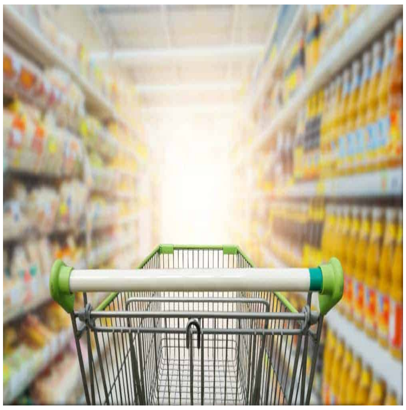

BUY ALERT: This Grocer Is 1 of the Best TSX Stocks to Buy Now

Description

While several companies lost sales during the pandemic, a few have seen their sales increase. Metro is among the best TSX stocks to buy, as it is resilient, despite the pandemic.

The grocer had a strong third quarter

The pandemic presented an unprecedented challenge for the Montreal company, but Metro still managed to deliver strong quarterly results driven by strong sales growth.

The grocery retailer, which owns the Jean Coutu drugstore group, has seen its sales grow by 10% in the third quarter, as more Canadians cooked at home. Metro had a profit of $263.5 million, or $1.04 per share, in its most recent quarter, up from $222.4 million, or $0.86 per share, a year ago.

Sales totaled $5.84 billion in the third quarter compared to $5.23 billion a year earlier. Comparable grocery store sales increased 15.6%, while comparable-store drugstore sales edged up 1%. Expenses related to COVID-19 totaled $107 million in the quarter.

On an adjusted basis, Metro earned $1.08 per share compared to adjusted earnings of $0.90 per share a year ago.

Analysts on average expected adjusted earnings of $1.07 per share, according to financial market data firm Refinitiv.

In its outlook, Metro said it was impossible to predict how long the pandemic would continue or what that would mean for long-term shopping habits.

However, in the short term, it expects food revenue to continue growing at higher-than-normal rates compared to last year, as Canadians shift their spending from restaurants to grocery stores.

In the first four weeks of Metro’s fourth quarter, comparable grocery store sales increased by approximately 10% from last year. On the drugstore side, in the first four weeks of its fourth quarter, front-end same-store sales grew by over 6%.

One of the best stocks to buy now

Metro is one of the best stocks to buy now. It's the kind of stock that can weather all kinds of economic storms, as it is a defensive business. People still need to eat during a recession. And since it's less enticing to go to the restaurant with the COVID-19 pandemic still happening, future prospects are good for Metro.

A proven business model, an extensive infrastructure of stores and distribution networks, and a well-known brand form a deep moat around Metro's business.

Metro is investing to strengthen and modernize its distribution network. The company plans to build new distribution centres that will offer a wider range of products and be fully or partially automated. The transformation began in 2018 and is expected to be completed by 2023. The successful integration of Jean Coutu and the growth of e-commerce are strong tailwinds for the company.

For fiscal 2020, revenue is expected to increase by 6.6% to $17.9 billion, while earnings are estimated to grow by 14.1% to $3.24 per share.

Metro pays a small quarterly dividend of $0.225 per share for a dividend yield of 1.5%. It is increasing it fast though, as seen by its impressive +16% CAGR over the past decade. The company's most recent dividend increase was 12.5%, marking the 25th consecutive year of dividend growth.

The combination of well-known brands, a growing stream of stable cash flows, a strong presence in Canada, and strategic investments are expected to support Metro's future dividend growth.

The stock has soared by more than 10% since the start of the year, while the TSX has lost 2%. Metro should continue performing well in the months to come.

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