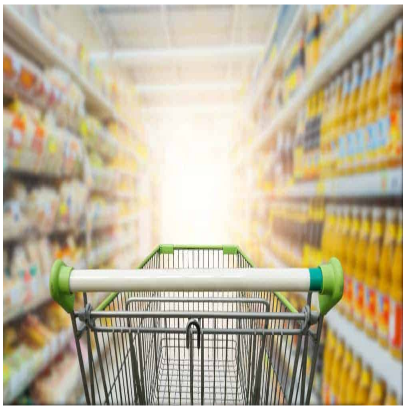

Why I'd Buy 1 Grocery Chain Operator Over Marijuana Stocks

Description

One company that benefited from the global pandemic is **Empire Company** (TSX:EMP.A). While the business is low growth, it's a recession-resistant holding. But with or without the health crisis, the consumer-defensive stock is a top choice of risk-averse investors.

Besides food retailing, this $10.37 billion company has real estate-related businesses. Sobeys Inc. is a wholly owned subsidiary of this Canadian icon. It also owns Safeway, Lawton Drugs, FreshCo., Foodland, Thrifty Foods, and IGA.

After the first half of this year, Empire has taken a new direction. In July 2021, Sobeys formed a partnership with Pathway Health Corporation. The goal is to bring medical marijuana to pharmacies.

Better stock performance

Empire displays steady performance on the TSX. At $39.07 per share, current investors enjoy a 13.95% year-to-date gain in addition to the modest but very safe 1.54% dividend. The payout is sustainable, given the low 20.85% payout ratio. Also, the total return in the last 39.36 years is 33,856.13% (15.96% CAGR).

Industry leaders in the cannabis space have done poorly compared to Empire. **Canopy Growth** (TSX:WEED)(NYSE:CGC) is down 44.51%, while **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) is disappointing with its -12.26% performance. Both marijuana producers haven't rewarded investors despite the growth potentials of the sector.

Continuing losses

While Canopy Growth's net loss in Q2 fiscal 2022 improved by $80 million to $16 million versus Q2 fiscal 2021 (quarter ended September 30, 2021), its adjusted net EBITDA loss widened by $77 million to $163 million. The company's free cash flow also went down by 47%. Management, however,expects revenue to accelerate in the back half of fiscal 2022.

Aurora Cannabis has a transformation plan in place, although it remains far from profitability. In Q1 fiscal 2022 (quarter ended September 30, 2021), management reported an 11% decrease in total revenue versus Q1 fiscal 2021. While adjusted EBITDA improved 79%, it's still a loss of $12.1 million.

Unlike Empire, it would take time for Canopy Growth and Aurora Cannabis to gain traction in the stock market. The continuing losses will drive away investors.

The underlying strength of the business

The pandemic continues to impact Empire, although the business remains strong and stable. In Q1 fiscal 2022 (quarter ended July 31, 2021), total sales grew 3.4%, while net earnings fell 3.4% versus Q1 fiscal 2021. Its president and CEO Michael Medline has great confidence in the underlying strength of the business.

He said, "We continue to perform strongly and consistently, especially considering we are comparing our results to extraordinary COVID-driven results from last year." Empire anchors its growth on Project Horizon. It's a three-year growth plan that focuses on core business expansion and the acceleration of e-commerce.

Management targets a $500 million incremental annualized EBITDA and an EBITDA margin improvement of 100 basis points by fiscal 2023.

New initiative

Sobeys's partnership with Pathway Health's Medical Cannabis Management Systems is part of Empire's Medical Cannabis Program. The grocery medical cannabis management provider will train and educate the pharmacists working for the grocery chain operator on how to prescribe medical marijuana properly.

Pathway Health will roll out the program in Empire-owned pharmacies in Nova Scotia, Atlantic Canada, and the rest of Canada in late 2021. Somehow, this initiative should revive sales of medical marijuana.

CATEGORY

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2. NASDAQ:CGC (Canopy Growth)

3. TSX:ACB (Aurora Cannabis)
4. TSX:EMP.A (Empire Company Limited)
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