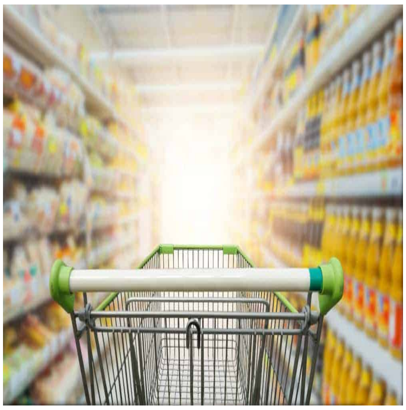

5-Minute Canadian Value Stock Analysis: Is Metro (MRU) a Buy?

Description

Warren Buffett famously said that investors should buy the stocks of great companies and hold them forever. At the Motley Fool, we take Buffett's advice to heart and believe in the power of a long-term perspective when it comes to investing.

Although everyone likes to find a good, undervalued stock, sometimes it is better to buy the stock of a great company at an okay price, as opposed to the stock of a mediocre company at a good discount. The stocks of businesses with sustainable, excellent performance make ideal buy-and-hold stocks.

For this reason, new Canadian investors should focus on the stocks of blue-chip companies with excellent fundamentals, understandable business models, essential products and services, a wide economic moat, solid financial ratios, and good management.

Metro

As one of Canada's largest grocers, **Metro** (TSX:MRU) is a great consumer staple stock pick. Companies like Metro sell staples that people must buy out of necessity regardless of economic conditions, such as food, beverages, and various household and personal products.

The company has endured since 1947 and currently engages in the grocery, pharmacy, health, and beauty, apparel, financial services, telecommunications, and general merchandise businesses through both corporate and franchise stores.

As a defensive stock pick, Metro has some great characteristics, such as a very low beta of -0.05. This makes it significantly less volatile than the market. Low-beta stocks are great for stabilizing an investor's portfolio by reducing volatility and drawdowns during a market correction.

Valuation

Metro is solid enough of a company that I would not worry about trying to time a good entry price.

However, new investors should always be aware of some basic valuation metrics, so they can understand how companies are valued and what influences their current share price.

Currently, Metro is extending gains since Monday and is currently trading at $68.06, which sits in the middle between its 52-week high of $73.54 and 52-week low of $57.81.

Metro current has a market cap of $16.28 billion with approximately $38.81 billion shares outstanding. This gives it an enterprise value of $20.53 billion with a enterprise value-to-EBITDA ratio of 11.5, similar to peers in the consumer staples sector.

For the past 12 months, the price-to-earnings ratio of Metro was 19.17, with a price to free cash flow ratio of 19.87, price-to-book ratio of 2.51, price-to-sales ratio of 0.88, and book value per share of approximately $26.97. These metrics suggest that Metro is currently fairly valued.

Metro has a Graham number of $46.28 for the last 12 months, a measure of a stock’s upper limit intrinsic value based on its earnings per share and book value per share. Generally, if the stock price is below the Graham number, it is considered to be undervalued and worth investing in. In this case, Metro does not look undervalued at this time.

Is it a buy?

Despite its current share price being more or less fairly valued, long-term investors should consider establishing a position if they have the capital. Consumer staple stocks like Metro make excellent long-term defensive holdings in your portfolio. The grocery industry is difficult to disrupt and recent attempts by delivery services have fallen short. Buying Metro, especially if the economy enters a recession could be a great way to build a long-term stock portfolio.

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