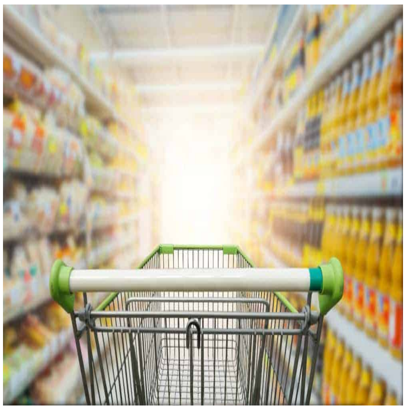

Better Buy: Loblaw Stock or Metro?

Description

Investors turn to or seek safety in a defensive sector like consumer staples when market volatility becomes intolerable. Constituents like **Loblaw** (TSX:L) and **Metro Inc** (TSX:MRU) displayed resiliency in 2022, notwithstanding stubborn inflation and rising interest rates.

The respective businesses remain stable as they provide products and services that people can't do without, even during harsh economic conditions. As of this writing, Loblaw investors are ahead 14.8% year to date, while holders of Metro Inc. are up 16.6%. Moreover, consumer staples (+8.9%) is the second best-performing sector, after energy (+60.3%), heading into the last month of the year.

Meet high customer expectations for value

According to Loblaw's Chairman and President, Galen G. Weston, the challenge in 2022 is meeting customer expectations for value. He adds that these expectations have never been higher, and Loblaw is working hard to meet them.

Weston said, "In a difficult economic environment, Loblaw is putting the strength of its unique assets to work for Canadians, offering record loyalty rewards, unmatched private-label brands, the best discount stores, and an inflation-fighting price freeze." Management wants to moderate cost increases to the extent possible while providing superior value to customers.

In Q3 2022 (quarter ended October 8, 2022), consolidated revenue and operating income grew 8.3% and 14.8% year over year to $17.4 billion and $991 million, respectively. Notably, net earnings and free cash flow (FCF) rose 17.8% and 14.1% to $575 million and $519 million, respectively, versus Q3 2021.

On a year-to-date basis (40 weeks), the top and bottom lines grew 5.2% and 17.4% to $42.5 billion and $1.4 billion, respectively. Management said the $38. billion food and pharmacy company would continue to execute retail excellence in its core businesses and advance its growth initiatives for the rest of 2022.

However, the impacts of COVID-19, related industry volatility, and the inflationary environment remain threats to the business. At $117.75 per share, Loblaw pays a modest 1.38% dividend (annual). Though the quarterly payouts should be safe, given the low 24.21% payout ratio.

Diversified business model

Metro Inc.'s diversified business model has long been its strength and competitive advantage. The $18.2 billion company derives consistent, stable revenues from its two core businesses: food (950 stores) and pharmacy (650 drugstores). Both businesses are in reliable defensive sectors. Growth and expansion are likewise ongoing through mergers, acquisitions, and innovations.

According to its President and CEO, Eric La Flèche, Metro maintained stable gross margins. And despite the high inflation environment, the grocer delivered good value to customers in fiscal 2022. While net earnings in Q4 2022 declined 13% to $168.7 million versus Q4 2021, they rose 2.9% to $849.5 million compared with fiscal 2021.

For La Flèche, it was an excellent performance overall, with Metro offering products at affordable and competitive prices. Furthermore, the company's financial position at year-end 2022 was very solid. So, management does not anticipate any liquidity risk in the new fiscal year.

If you take a position today, Metro trades at $77.26 per share and pays a 1.42% dividend.

Defensive assets

If asked to choose between Loblaw and Metro, the share price is the only determining factor. Otherwise, both pay rock-steady dividends and are excellent hiding places for your money during inflationary periods.

CATEGORY

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