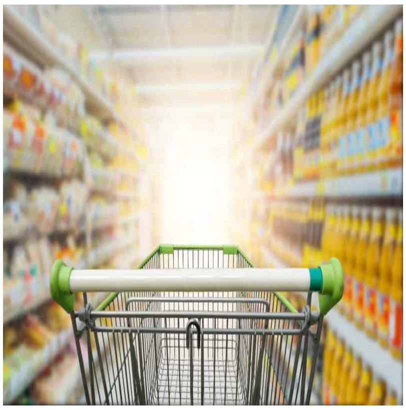

Barren Shelves and Panic Buying: Time to Invest in Grocery Retail?

Description

Photos of empty store shelves are circulating in the media amid the panic buying of key household essentials. Canadians everywhere looking for safe, defensive equities to invest in have flocked to grocery retail. They see this as an oasis in a rather barren economic landscape.

In this article, I'm going to compare and contrast two of Canada's largest retailers: **Loblaw Companies** (TSX:L) and **Metro, Inc.** (TSX:MRU). I will also discuss why I believe Metro may actually outperform its peers over the next 10 years.

Margins are key

From a long-term perspective, the grocery retail business is categorized by razor-thin operating and net margins. Just-in-time inventory standards and lean methodologies are key drivers for earnings growth over time. These inventory management techniques are industry standard and are the key driver of empty shelves of late.

Low margins have generally been the key long-term driver preventing me from investing in any grocery retailer. In general, Metro's margins have tended to outperform those of Loblaw's historically in the grocery space.

Loblaw has piled on debt in the past to support growth (and, by extension, price wars). However, Metro has generally stayed more regional and retained an ability to keep margins at manageable, long-term levels.

Fundamentally, I believe Metro will continue to outperform Loblaw over the next 10 years from a risk-adjusted return perspective. Operating metrics are everything. On that front, Metro is the better pick for conservative, long-term investors in my book.

Pharmacy same-store sales a near-term driver

While much of the emphasis has been on the grocery business underpinning the likes of Metro and Loblaw, perhaps an even more important business for those two companies is their respective pharmacy subsidiaries. Loblaw owns Shoppers Drug Mart and Metro owns Jean Coutu.

With a vaccine hopefully on the horizon in a few months' time, all eyes will be on the numbers reported by both of these firms' pharmacy chains. Analysts and investors alike will be following the trend closely.

I tend to prefer Jean Coutu over Shoppers from a numbers/fundamentals standpoint. In nearly every metric, Metro is likely to see better dollar per square foot and same store sales numbers than Loblaw in the pharmacy space in the near term.

Bottom line

In my view, Metro has the better balance sheet and income statement relative to its competition. I would therefore encourage investors focused on fundamentals to consider Metro for a defensive holding through these tumultuous times.

Stay Foolish, my friends.

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1. Investing

POST TAG

1. coronavirus
2. grocery retail
3. Retail

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)
2. TSX:MRU (Metro Inc.)

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