3 Reasons Loblaw Shares Could Go Higher

Description

By: Chris Lau

After several years of lacklustre performance, **Loblaw** (TSX:L) stock has had a terrific year.

To help right the ship and inject some life into its stock, Loblaw made two primary moves. First, the company monetized its huge real estate portfolio. Second, it bought **Shoppers Drug Mart** (TSX:SC).

While it's up on the year, Loblaw has the potential to do much more for investors. Here are three items that point towards more upside for Loblaw owners.

1. Earnings growth

Loblaw demonstrated sizeable year-over-year improvements in both earnings per share (EPS) and EBITDA margin in the most recent quarter. EPS grew from $0.55 in Q2/12 to $0.63 in Q2/13, a 14.5% increase. In addition, the EBITDA margin expanded to 6.8% from 6.3% in this year's second quarter.

Improved profitability came down to two basic items. Improved revenue and better cost control. Loblaw shares will benefit should these trends continue.

2. REIT IPO

Loblaw announced an IPO for **Choice Properties REIT** to help unlock the value of its real estate assets. Loblaw has nearly $7B worth of properties and related assets. The IPO has provided Loblaw owners with $460M in cash, and still left them with a majority ownership of the REIT at 81.7%.

Not only will Loblaw potentially benefit from the re-deployment of the cash, but also from the public valuation that is now ascribed to this publicly traded REIT vehicle.

3. Shoppers Takeover

Galen Weston, the Executive Chairman, said in the quarterly report:

Combining Loblaw and Shoppers Drug Mart will build on the strong base Vicente and his team have developed over the last two years, providing an excellent strategic complement to our existing assets, *and setting the stage for further shareholder value creation.*

It is reasonable to believe the market has underestimated the benefit of buying Shoppers. There are obvious cross-over opportunities between the two operations with front of store food sales at one, and a beefed up pharmacy at the other. Combined, the two have the potential to create something the Canadian market has never seen before, and that should be a good thing for long-term shareholders.

Foolish Bottom Line

Loblaw shares are on the mend, owed greatly to solid operational management and some savvy corporate actions. If the company continues with its improved grocery operations, as well as successfully integrates the Shoppers deal, Loblaw shareholders, and the Weston family, are in for some happy times.

Another idea….

Like Loblaw, but looking for a small-cap idea instead? The Motley Fool Canada's senior investment analyst has identified his "Top Canadian Small Cap for 2013 — and Beyond" in a new research report. You can instantly access the report — and see the ticker — by simply clicking here now.

Disclosure: Chris Lau has no positions in any of the stocks mentioned in this article.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

Category

1. Investing

Date
2025/07/19
Date Created
2013/09/10
Author
motley-fool-staff