



Could This Industry Leader Rally Another 45% in 2015?

Description

Loblaw Companies Limited ([TSX: L](#)), the largest food retailer in Canada, has been one of the market's best performing stocks in 2014, rising more than 45% compared to the TSX Composite Index's return of just over 7%. Strong earnings growth and a recent acquisition have played major roles in the company's rising share price and I think it could continue much higher from here.

Let's take a look at three of the primary reasons Loblaw could be one of the top performing stocks in 2015.

1. Strong earnings to support a continued rally

On November 12, Loblaw released third-quarter earnings and its stock has risen over 7% in the weeks since. Here's an overview of what the company accomplished during the quarter compared to the year-ago period.

- Adjusted earnings per share increased 23.3% to \$0.90.
- Revenue increased 35.9% to \$13.6 billion, largely due to its recent acquisition of Shoppers Drug Mart.
- Excluding the impact of Shoppers Drug Mart, same-store sales increased 2.6%.
- Same-store sales at Shoppers Drug Mart increased 2.5%, including pharmacy sales increasing 3.5% and front-end sales increasing 1.6%.
- Adjusted EBITDA increased 56.9% to \$1 billion.
- Adjusted operating profit increased 74.2% to \$669 million.
- Generated \$216 million of free cash flow.

In the first nine months of fiscal 2014, Loblaw's adjusted earnings per share increased 17.9% to \$2.24 and its revenue increased 26.1% to \$31.2 billion, putting it on track for a record-setting yearly performance.

2. Inexpensive current and forward valuations

At current levels, Loblaw's stock trades at 21 times its trailing-12-months earnings per share of \$2.97,

which seems fair given the company's long-term growth rate. However, the stock's valuation gets very enticing on a forward basis, as it trades at less than 18 times fiscal 2015's estimated earnings per share of \$3.48.

I think Loblaw's stock could consistently command a multiple of approximately 20 going forward, which would place shares upwards of \$69 by the conclusion of fiscal 2015, representing growth of more than 10% from today's levels.

3. A stable and growing dividend

Lastly, Loblaw has one of the most stable dividends in the market today, which can be attributed to its ample free cash flow generation. The company has also shown a strong dedication to increasing its dividend as of late, as it has raised its annual payment three times in the last three years. Loblaw currently pays an annual dividend of \$0.98 per share, which gives it a very respectable yield of approximately 1.6% at current levels.

Is it time to buy shares of Loblaw?

Loblaw is the largest food retailer in Canada and its stock has widely outperformed the overall market in 2014, which can be attributed to strong financial growth, primarily due to its recent acquisition of Shoppers Drug Mart. Year-to-date in fiscal 2014, the company's earnings per share have increased 17.9%, revenue has increased 26.1%, and the stock has responded accordingly by rallying more than 45%.

Even after the stock's rally of nearly 50% in 2014, I think Loblaw represents an intriguing long-term investment opportunity, because it has strong earnings to support a continued rally, trades at inexpensive forward valuations, and has a stable and growing dividend. With all of these factors in mind, I think long-term investors should strongly consider initiating positions in Loblaw today and adding to them on any weakness provided by the market.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

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