Should You Buy the Jean Coutu Group Inc. Today?

Description

The Jean Coutu Group Inc. (TSX: PJC.A), one of the largest owners and operators of pharmacies in Canada, announced third-quarter earnings on the morning of January 8 and its stock responded by falling over 5% in the trading session that followed. Let's take a closer look at the results to determine if we should consider using this weakness as a long-term buying opportunity or if we should look elsewhere for an investment instead.

The mixed third-quarter results

Here's a breakdown of Jean Coutu's third-quarter earnings for fiscal 2015 compared to what analysts had expected and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Earnings Per Share	$0.30	$0.32	$0.30
Revenue	$736.7 million	$726.4 million	$712.5 million

Source: Financial Times

Jean Coutu's earnings per share remained unchanged and its revenue increased 3.4% compared to the third-quarter of fiscal 2014. These results were driven by same-store sales increasing 3.1% during the quarter, including a 3.8% increase in pharmacy sales and a 2.0% increase in front-end sales. Also, prescription sales increased 4% overall and 3.7% on a same-store basis.

Here's a breakdown of eight other important statistics and updates from the report:

1. Net income decreased 10.4% to $56 million.
2. Operating income decreased 4% to $76.7 million.
3. Generic drugs represented 68.1% of sales compared to 66.7% in the year-ago period.
4. Generated $68.7 million in cash flows from operations and invested $26.7 million in capital expenditures, resulting in $42 million of free cash flow.
5. Paid out $18.8 million in dividends during the quarter.

6. Cash balance increased 18.8% to $93.5 million from the second quarter.
7. Opened three new franchised stores, significantly renovated or expanded three existing stores, closed two existing stores, and relocated one franchised store.
8. Total selling square footage increased 2.7% to 3,167,000 square feet compared to the year-ago period.

Lastly, Jean Coutu announced that it would be maintaining its quarterly dividend of $0.10 per share, and it will be paid out on February 6 to shareholders of record at the close of business on January 23.

Should you buy shares of Jean Coutu on the dip?

The Jean Coutu Group is one of the largest pharmacy chains in Canada, and increased traffic at its stores, especially in its pharmacies, led it to a solid third-quarter performance. However, the company's earnings per share results came in below the expectations of analysts, so its stock responded by falling over 5%.

I think the post-earnings drop in Jean Coutu's shares is warranted, but I also think it has led to a long-term buying opportunity. I think this because the stock now trades at favorable valuations, including 21.1 times fiscal 2015's estimated earnings per share of $1.22 and 19.4 times fiscal 2016's estimated earnings per share of $1.33, both of which are inexpensive compared to its current price-to-earnings multiple of 22.

Furthermore, the company pays an annual dividend of $0.40 per share, giving it a healthy yield of about 1.55% at current levels. With all of this information in mind, I think Foolish investors should consider initiating long-term positions in Jean Coutu today and adding to them on any further weakness.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:TLRY (Aphria)

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