Is it Too Late to Buy Loblaw Companies Limited?

Description

It's amazing what a difference one year can make. At this time in 2014, shares of **Loblaw Companies Limited** (TSX:L) traded in the low $40s, and newspapers were constantly writing about the "grocery wars." As the narrative went, Canadian supermarket chains were slashing prices across the board to win market share, and in the end all competitors would lose.

Fast forward to today, and Loblaw has proved the doubters wrong, with Thursday's results as the latest example. As a result, the company's shares trade in the mid-$60s.

This leaves a couple of questions. First, how did we get to this point? Second, and more importantly, should you hold Loblaw shares? Below we take a look.

How did we get here?

In investing, it's often a good idea to be greedy when others are fearful, and this industry is a perfect example. Since one year ago, when the "grocery wars" phrase was heard everywhere, Loblaws shares have gained over 40%. Its competitors have also fared well—shares of **Empire Company Limited** and **Metro Inc.** are up 33% and 69% respectively. Clearly these stocks were undervalued a year ago, but there are other reasons the shares have risen.

First of all, the industry has gotten less competitive, partly due to Loblaw's massive takeover of Shoppers Drug Mart. Of course, **Target's** failure in Canada hasn't hurt either—a year ago, Target was often cited as a big threat to Canadian grocers.

Second, the major players have remained disciplined. This was possible because the industry is dominated by three companies. If the industry was more of a free-for-all, then the grocery wars may have indeed dragged everyone down.

Finally, investors finally seem more willing to hold the grocers. This makes sense—grocery is a very stable business, something that investors seem keen on in this environment.

So, where to from here?

At this point, there are a lot of reasons to still buy Loblaw shares.

For one, there are still plenty of growth opportunities. Loblaw has started selling its name-brand products in Shoppers stores, but there's still more to be done. There are also opportunities to expand the Joe Fresh line. Loblaw can also grow earnings by moving into some abandoned Target locations.

Second, Loblaw has now "completed the conversion of substantially all of its corporate grocery locations and associated distribution centres to the new IT systems." This probably won't get much coverage in the newspapers, but IT conversions of this scale are notoriously difficult, and this is a big accomplishment. IT is also an area where Loblaw has trailed its competitors in recent years. Now that the company has caught up, it can become a much more efficient operator.

Most importantly, Loblaw is a very stable company, something that we all need in our portfolios. Remember, we all have to eat, even when the economy is doing poorly. So, I would still recommend Loblaw shares, even though they may seem pricey right now.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

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