



Loblaw Companies Limited Crushed Q4 Earnings Expectations: Is Now the Time to Buy?

Description

Loblaw Companies Limited ([TSX:L](#)), the largest retailer of food in Canada, announced better-than-expected fourth-quarter earnings before the market opened on February 26, but its stock has responded by making a slight move to the downside. Let's take a closer look at the quarterly results to determine if we should consider using this weakness as a long-term buying opportunity.

The better-than-expected results

Here's a summary of Loblaw's fourth-quarter earnings results compared to what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Earnings Per Share	\$0.96	\$0.89	\$0.57
Revenue	\$11.41 billion	\$10.45 billion	\$7.64 billion

Source: Financial Times

Loblaw's earnings per share increased 68.4% and its revenue increased 49.4% compared to the fourth quarter of fiscal 2013. The company's vast earnings per share growth can be attributed to its adjusted net income soaring 146% to \$396 million. Its near 50% increase in revenue can be largely attributed to its acquisition of Shoppers Drug Mart, which contributed \$3.05 billion of revenue, or 26.8% of the company's total revenue for the quarter, but excluding this acquisition, revenues still increased a very strong 9.4% to \$8.36 billion.

Here's a quick breakdown of eight other notable statistics and updates from the report compared to the year-ago period:

1. Comparable same-store grocery sales increased 2.4%
2. Same-store sales increased 3.8% at Shoppers Drug Mart
3. Same-store pharmacy sales increased 4.2% at Shoppers Drug Mart

4. Front-of-the-store same-store sales increased 3.6% at Shoppers Drug Mart
5. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 94.3% to \$950 million
6. Adjusted operating income increased 132.4% to \$681 million
7. Free cash flow increased 30.7% to \$439 million
8. Ended the quarter with \$999 million in cash and cash equivalents, an increase of 1.9% from the beginning of the quarter

Loblaw also announced that it would be maintaining its quarterly dividend of \$0.245. The next payment will come on April 1 to shareholders of record at the close of business on March 15.

Should you invest in Loblaw today?

Loblaw is the largest food retailer in Canada, and increased traffic at its stores and its acquisition of Shoppers Drug Mart led it to a better-than-expected fourth-quarter performance, but its stock has responded by falling nearly 1% in the trading sessions since.

I think the post-earnings weakness in Loblaw's stock represents a great long-term buying opportunity, because it trades at attractive valuations, because it has ample cash on its balance sheet to pursue acquisitions, and because its dividend will provide additional returns to investors.

First, Loblaw's stock trades at just 19.8 times fiscal 2014's adjusted earnings per share of \$3.22 and only 18.1 times fiscal 2015's estimated earnings per share of \$3.52, both of which are inexpensive compared to its long-term growth rate.

Second, the company ended the quarter with \$999 million in cash and cash equivalents, and I think this leaves it well positioned to pursue further acquisitions to stimulate growth going forward.

Third, Loblaw pays an annual dividend of \$0.98 per share, giving its stock a 1.5% yield at current levels, and this will provide additional returns to investors, especially if they are reinvested.

With all of this information in mind, I think Foolish investors should strongly consider making Loblaw a core position today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

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Author

jsolitro

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