Should You Buy, Sell, or Hold George Weston Limited Following ts Q4 Earnings Beat?

Description

George Weston Limited (TSX:WN), Canada's largest food processor and distributor and the company behind Loblaw Companies and Weston Foods, announced better-than-expected fourth-quarter earnings before the market opened on March 5, and its stock has responded by making a slight move to the upside. Let's take a closer look at the results to determine if we should consider establishing long-term positions today.

Beating the expectations with ease

Here's a summary of George Weston'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	$1.58	$1.56	$0.98
Revenue	$11.73 billion	$11.38 billion	$7.92 billion

Source: Financial Times

George Weston's earnings per share increased 61.2% and its revenue increased 48.2% compared to the fourth quarter of fiscal 2013. The company's immense earnings per share growth can be attributed to its adjusted net income increasing 57% to $212 million. Its vast revenue growth can be largely attributed to Loblaw's acquisition of Shoppers Drug Mart, which closed in March of 2014 and contributed $3.05 billion of revenue during the quarter. However, it is also worth noting that excluding the acquisition of Shoppers Drug Mart, George Weston's revenues still increased a very strong 9.6% to $8.68 billion.

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

1. Sales increased 49.4% to $11.4 billion in its Loblaw operating segment (includes Shoppers Drug

Mart)
2. Sales increased 13.6% to $469 million in its Weston Foods operating segment
3. Adjusted earnings before interest, taxes, deprecation, and amortization (EBITDA) increased 84.5% to $1.02 billion
4. Adjusted EBITDA margin expanded 170 basis points to 8.7%
5. Operating profit increased 65.4% to $622 million
6. Operating margin expanded 200 basis points to 6.3%
7. Cash flows from continuing operations increased 34.1% to $1.09 billion
8. Free cash flow increased 42% to $504 million

George Weston also announced that it would be maintaining its quarterly dividend of $0.42 per share. The next payment will come on April 1 to shareholders of record at the close of business on March 15.

What should you do with George Weston's stock today?

George Weston is the largest food processor and distributor in Canada, and increased demand for its products and increased traffic at its stores led it to a better-than-expected fourth-quarter performance, and its stock has responded accordingly by moving higher.

I think George Weston's stock represents an attractive long-term investment opportunity today, even after slight post-earnings pop, because it still trades at low valuations, including just 19.8 times fiscal 2014's adjusted earnings per share of $5.35 and only 17.3 times fiscal 2015's estimated earnings per share of $6.11, both of which are very inexpensive compared to its five-year average price-to-earnings multiple of 27.6.

I think the company's stock could consistently command a fair multiple of around 25, which would place its shares upwards of $150 by the conclusion of fiscal 2015, representing upside of more than 40% from current levels.

With all of the information above in mind, I think George Weston represents one of the best long-term investment opportunities in the market today. Foolish investors should take a closer look and strongly consider establishing long-term positions.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WN (George Weston Limited)

Category

1. Investing

Date
2025/08/21
Date Created
2015/03/05
Author

jsolitro