Is Loblaw Companies Limited's Plan to Build 50 New Stores a Buying Opportunity?

Description

Loblaw Companies Limited (TSX:L), Canada's largest supermarket chain, recently announced a $1.2 billion investment in its Canadian business, including plans to open 50 new stores and renovate as many as 100 others. Loblaw is clearly cash-rich, as its latest earnings report shows. But is now the right time to buy the grocer's stock?

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The company made the announcement in early March, noting the store additions will be across the country and will create about 5,000 new jobs at its corporate and independently-owned stores. Loblaw, which operates under a number of banners, including No Frills, Real Canadian Superstore, T&T Supermarket, Fortinos, Provigo, and Shoppers Drug Mart, said it would also invest more in e-commerce.

"True to our strategy, our investment will create better access to fresh food, wellness solutions closer to home, e-commerce convenience, and a family of stores that elevate grocery, pharmacy, apparel and banking experiences," said Loblaw President Galen Weston in a statement.

Industry watchers noted that retailers in the highly competitive grocery sector are compelled to upgrade their offerings on a regular basis, or risk falling out of the race.

"Loblaw is one of the best-in-class retailers in Canada, perhaps in North America," Bruce Edward Winder, senior advisor at retail consultancy J.C. Williams Group in Toronto told the *Financial Post*. "Every three to five years you have to tune up your footprint as a retailer. You have to keep evolving. If you don't do that, you start to lose relevance and your customers will take notice, and you will lose market share."

In late February, Loblaw released its latest quarterly earnings report. The company more than doubled profits, which was helped by the acquisition of Shoppers Drug Mart, which the grocer purchased for $12.4 billion in July 2013.

For its fourth quarter, Loblaw earned $247 million, or $0.60 per share, for the 13-week period ended

January 3, up from $114 million, or $0.41 per share, for the same quarter a year earlier. Revenue was $11.4 billion, which included $3 billion from Shoppers, up nearly 50% from $7.6 billion a year earlier. Same-store sales—a key metric in the retail industry—were up 2.4%.

Since the announcement about creating new stores, Loblaw stock has gained around 2%—a decent return but not outstanding by any means. Loblaw is currently trading around the $63 mark and has a 52-week high of $66.88. That suggests the stock still has some room to grow. It may not be a high flyer, but Loblaw is a steady performer and a worthwhile addition to a well-diversified portfolio.

CATEGORY

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2. Investing

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