Is the Jean Coutu Group Inc. the Top Pharmacy Stock to Buy Today?

Description

The Jean Coutu Group Inc. (TSX:PJC.A), one of Canada's largest owners and operators of pharmacies, announced mixed fourth-quarter earnings results on the morning on April 29, and its stock has responded by falling over 8% in the trading sessions since. Let's take a closer look at the results to determine if this weakness represents a long-term buying opportunity, or a major warning sign to avoid the stock for the time being.

Breaking down the mixed results

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

Metric	Reported	Expected	Year-Ago
Earnings Per Share	$0.30	$0.31	$0.30
Revenue	$713.9 million	$702.9 million	$685.4 million

Source: Financial Times

Jean Coutu's earnings per share remained unchanged and its revenue increased 4.2% compared with the fourth quarter of fiscal 2014. The company's flat earnings-per-share performance can be attributed to its total number of Class "A" shares outstanding decreasing by 2% to 83.5 million, but this was offset by its net income decreasing 4.3% to $55.2 million.

Its strong revenue growth can be attributed to two primary factors. First, the company's same-store sales increased 3.4% compared with the year-ago period, including a 4% increase in pharmacy sales and a 2.7% increase in front-end sales. Second, prescription sales increased 3.6% overall and 3.2% on a same-store basis compared with the year-ago period.

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

1. Operating income before amortization decreased 3.9% to $84.1 million
2. Operating income decreased 3.8% to $76.1 million
3. Cash flow related to operating activities decreased 8.7% to $79.7 million
4. Ended the quarter with $121.9 million in cash and cash equivalents, an increase of 30.4% from the beginning of the quarter
5. Total assets increased 15.4% to $1.34 billion

Jean Coutu also announced a 10% increase to its annual dividend to $0.44 per share, and the first quarterly installment of $0.11 per share will be paid on May 29 to shareholders of record at the close of business on May 15.

Should you buy shares of Jean Coutu today?

I do not think the post-earnings weakness in Jean Coutu's stock is warranted. It actually represents a very attractive long-term buying opportunity because it trades at inexpensive valuations and because it has shown a strong dedication to maximizing shareholder value through the payment of dividends and the repurchasing of its shares.

First, Jean Coutu's stock trades at just 19.9 times fiscal 2015's earnings per share of $1.17, only 18.5 times fiscal 2016's estimated earnings per share of $1.26, and a mere 17.2 times fiscal 2017's estimated earnings per share of $1.35, all of which are very inexpensive compared with the industry average price-to-earnings multiple of 25.2.

Second, Jean Coutu pays an annual dividend of $0.44 per share, giving its stock a 1.9% yield at current levels, and it has increased its annual payment for seven consecutive years, making it one of the top dividend-growth plays in the industry today. Also, the company has been actively repurchasing its shares, including the repurchase of 2.57 million shares for approximately $55.6 million in fiscal 2015, and this will help boost earnings per share going forward.

With all of the information provided above in mind, I think Foolish investors should strongly consider using the post-earnings weakness in Jean Coutu's stock to begin scaling in to long-term positions.

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