



Should You Buy Loblaw Companies Limited Following its Q1 Earnings Beat?

Description

Loblaw Companies Limited ([TSX:L](#)), the largest retailer in Canada, announced better-than-expected first-quarter earnings results on the morning of May 6 and its stock has responded by rising over 1%. Let's take a closer look at the quarterly results to determine if we should consider establishing long-term positions today, or if we should wait for a better entry point in the trading sessions ahead.

Surpassing the expectations with ease

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

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$0.73	\$0.68	\$0.54
Revenue	\$10.05 billion	\$9.45 billion	\$7.29 billion

Source: *Financial Times*

Loblaw's adjusted earnings per share increased 35.2% and its revenue increased 37.8% compared with the first quarter of fiscal 2014. These very strong results can largely be attributed to its \$12.4 billion acquisition of Shoppers Drug Mart, which was completed in March 2014 and contributed \$2.6 billion of revenue, or 94.2% of the company's total revenue growth, for the quarter.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Food retail same-store sales increased 4.0%
2. Same-store sales increased 3.1% at Shoppers Drug Mart
3. Same-store pharmacy sales increased 3.5% at Shoppers Drug Mart
4. Front-of-the-store same-store sales increased 2.7% at Shoppers Drug Mart
5. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 63.7% to \$789 million

6. Adjusted EBITDA margin expanded 130 basis points to 7.9%
7. Adjusted operating income increased 89.2% to \$543 million
8. Adjusted operating margin expanded 150 basis points to 5.4%
9. Reported free cash flow of \$144 million, compared with negative free cash flow of \$282 million in the year-ago period
10. Ended the quarter with \$1.01 billion in cash and cash equivalents, an increase of 1.4% from the beginning of the quarter

Loblaw also announced a 2% increase to its annual dividend to \$1 per share, and the first quarterly installment of \$0.25 per share will be paid out on July 1 to shareholders of record at the close of business on June 15.

Does Loblaw belong in your portfolio?

It was a very strong first quarter for Loblaw, so I think its stock has responded correctly by rising over 1%. However, I think there is still plenty of room to the upside for the stock.

First, Loblaw's stock trades at just 17.8 times fiscal 2015's estimated earnings per share of \$3.51 and only 15.5 times fiscal 2016's estimated earnings per share of \$4.04, both of which are inexpensive given its long-term growth rate.

I think the company's stock could consistently command a fair multiple of at least 20, which would place its shares upwards of \$70 by the conclusion of fiscal 2015 and upwards of \$80 by the conclusion of fiscal 2016, representing upside of more than 11% and 27%, respectively, from today's levels.

Second, Loblaw now pays a quarterly dividend of \$0.25 per share, or \$1 per share annually, giving its stock a 1.6% yield at current levels. A 1.6% yield may not seem impressive at first, but it is very important to note that the company has increased its annual dividend payment for four consecutive years, and its increased free cash flow could allow this streak to continue for the next several years.

With all of the information above in mind, I think Loblaw Companies Limited represents the best long-term investment opportunity in the retail industry today. Foolish investors should take a closer look and strongly consider establishing positions.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

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1. TSX:L (Loblaw Companies Limited)

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