3 Reasons Why You Should Buy Loblaw Companies Limited Right Now

Description

Loblaw Companies Limited (TSX:L), the largest retailer in Canada, has underperformed the overall market in 2015, rising just over 1.5% as the TSX Composite Index has risen over 2.5%, but I think it could widely outperform the market from this point forward. Let's take a look at three reasons why this could happen and why you should be a long-term buyer of the stock today.

1. Double-digit growth to support a near-term rally

On the morning of May 6 Loblaw announced better-than-expected first-quarter earnings results, and its stock has responded by rising about 2.5% in the weeks since. Here's a breakdown of 10 of the most notable statistics from the report compared with the year-ago period:

1. Adjusted net income increased 96.7% to $301 million
2. Adjusted earnings per share increased 35.2% to $0.73, surpassing analysts' expectations of $0.68
3. Revenue increased 37.8% to $10.05 billion, surpassing analysts' expectations of $9.45 billion
4. Food retail same-store sales increased 4.0%
5. Same-store sales increased 3.1% at Shoppers Drug Mart
6. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 63.7% to $789 million
7. Adjusted EBITDA margin expanded 130 basis points to 7.9%
8. Adjusted operating income increased 89.2% to $543 million
9. Adjusted operating margin expanded 150 basis points to 5.4%
10. Free cash flow increased $426 million to $144 million

Loblaw's very strong first-quarter performance can be primarily attributed to its $12.4 billion acquisition of Shoppers Drug Mart, which closed in March 2014 and contributed $2.6 billion of revenue, or 94.2% of the company's total revenue growth, to the quarter.

2. The stock trades at attractive forward valuations

At today's levels Loblaw's stock trades at just 17.9 times fiscal 2015's estimated earnings per share of

$3.54 and only 15.5 times fiscal 2016's estimated earnings per share of $4.07, both of which are very inexpensive compared with the industry average price-to-earnings multiple of 25.2 and its long-term growth potential.

I think Loblaw's stock could consistently trade at a fair multiple of at least 20, which would place its shares upwards of $70 by the conclusion of fiscal 2015 and upwards of $81 by the conclusion of fiscal 2016, representing upside of over 10% and 28%, respectively, from current levels.

3. A management team dedicated to its shareholders

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

Is Loblaw the missing piece to your portfolio?

I think Loblaw Companies Limited represents one of the best long-term investment opportunities in the market today because it has the support of very strong first-quarter earnings, its stock trades at inexpensive forward valuations, and its management team has shown a strong dedication to maximizing the amount of capital it returns to shareholders. With all of this information in mind, I think Foolish investors should strongly consider making Loblaw a core holding today.

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1. Dividend Stocks
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1. TSX:L (Loblaw Companies Limited)

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jsolitro