



9.2 Million Reasons Why Investors Should Buy Loblaw Companies Limited

Description

Traditionally, the grocery business has been viewed as one of the most boring businesses out there.

And for the most part, investors have treated the sector accordingly. During the crisis of 2008-09, Canada's grocers actually went up, as spooked investors searched high and low for stability. Generally, whenever the market sells off in a serious way, the grocers act like bonds, staying steady as value in everything else erodes.

This doesn't mean that the grocers can't perform during better times. Over the past year, while the TSX Composite has been essentially flat, both **Loblaw Companies Limited** ([TSX:L](#)) and **Empire Company Limited** have returned more than 36%, even before dividends. **Metro Inc.** has done even better, easily surpassing a 50% gain during the same time.

Needless to say, it's been a nice year for owners of these stocks.

For one of these grocers, I think the good times are only just beginning, buoyed by a massive demographic shift. Let's take a closer look.

9.2 million reasons to buy

In 2014 partially in response to Empire's decision to acquire western Canada's **Safeway** stores a year earlier, Loblaw agreed to spend \$12.4 billion to acquire Shoppers Drug Mart.

Combined, both companies boast a store count of more than 2,300, more than one billion transactions per year, and more than 65 million square feet in floor space. More than 1,800 of those stores have pharmacies, and the ability to sell PC branded products on Shoppers' shelves is attractive.

One of the main reasons for the acquisition was Shoppers's dominant pharmacy position. It is Canada's largest dispenser of prescription drugs, an area Loblaw has long wanted to strengthen. Loblaw's management knew they had to do something in the sector relatively quickly, or else risk losing out on a huge potential prize.

That prize is Canada's 9.2 million baby boomers, a generation that is only beginning a decades-long journey of popping prescription meds. On average, each baby boomer will be around for another 25-30 years, meaning these are some pretty lucrative potential customers.

Remember, Canada's baby boomers are the most affluent generation in the history of our country. Collectively, they have trillions of dollars in wealth, and they're not going to be afraid to spend it on their health. As expensive new drugs hit the market, most boomers will be happy to pay. This is very good news for people who dispense these drugs.

The other reason

There's another hidden benefit of the Shoppers' acquisition.

Before my grandmother passed away, she took to buying her staples at smaller stores. She just couldn't handle the walking needed to go all the way through a big box retailer, especially since all the staples are so spread out.

She was happy to pay the extra to shop in a smaller store. And what better place than where she picked up her pills?

That's the advantage investors often miss when it comes to Shoppers' stores. They're usually located in convenient spots closer to residential areas—at least compared with your average big box store. That convenience gets more and more important as people age.

The traditional business

And let's not forget about the traditional grocery business, which continues to do well.

What Loblaw does better than its competitors is using its clout to come up with some pretty neat products. Every time I do into the store, I see new PC branded products. Most look so tasty that I don't mind paying a few extra bucks to give it a go.

In an industry where generic brands have always meant cheap stuff, Loblaw's ability to create a premium brand is remarkable. And it keeps getting stronger as time goes on.

The other hidden gem the company owns is PC Financial, which offers no-fee banking accounts, PC branded credit cards, and other financial products. As big banks continue to ratchet up fees, look for PC's banking products to continue to gain popularity. The credit card also increases customer loyalty by offering points redeemable for groceries.

Investors should own Loblaw for the pharmacy exposure, especially considering the upcoming demographic boom. Getting Canada's largest grocer thrown in is almost like a bonus. Combined, it looks like a pretty attractive company, even sitting at a 52-week high.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

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