Should You Buy Loblaw Companies Limited Around Earnings Report Time?

Description

Loblaw Companies Limited (TSX:L) is reporting its second-quarter earnings results on Thursday. Should you buy it today? First, let's take a look at Loblaw's business.

The business

Loblaw is Canada's biggest retailer and largest food and pharmacy leader. It has over 2,300 stores across the country. You might recognize some of its banners, including Superstore, T&T Supermarket, Shoppers Drug Mart, No Frills, Extra Foods, Liquorstore, and others.

In addition to selling under multiple banners, Loblaw also has one of Canada's strongest private label programs. You might recognize well-known brands such as President's Choice, President's Choice Financial, no name, Life, and Joe Fresh.

Sales growth, earnings growth, and valuation

Most notably, Loblaw increased its sales over 30% in 2014 and earnings per share increased by 23% that year. That brought the shares from a price-to-earnings ratio (P/E) of 16 to its present multiple of 20.

Year	Sales Growth
2011	
2012	1.1%
2013	2.4%
2014	31.6%

There is no question that Loblaw Companies Limited is a defensive investment for any portfolio. With earnings expected to grow on average over 10% annually in the foreseeable future, Loblaw shares aren't expensive today. However, they aren't cheap either.

Dividend

At about $67 per share, Loblaw yields 1.5%. Loblaw has increased the dividend for three consecutive years, and before that, it froze the dividend between 2005 and 2011. Its payout ratio at about 30% is sustainable.

After following its dividend-growth pattern for the past few years, I anticipate Loblaw's quarterly dividend to remain at $0.25 per share for the rest of the year. In that case, Loblaw's dividend-growth rate looks as follows:

Year	Dividend-Growth Rate
2012	
2013	10.6%
2014	3.7%
2015	2.1%

It seems that Loblaw's annual dividend-growth rate is closely related to its earnings-growth rate for that year. With earnings growth expected to be over 10% in 2016, Foolish investors could make an educated guess that the dividend might grow at that rate as well.

Should investors buy Loblaw today?

I'm not encouraging the timing of the market, but around earnings report time the market can get especially emotional about a company. Loblaw could go up or down 5-7% in one day.

Because Loblaw shares are neither cheap nor expensive today, Foolish investors can act cautiously by buying half a position now, and then finish off the position after the earnings report.

If you plan to buy $5,000 in Loblaw, you could buy $2,500 of it today and buy more after the earnings report.

If the price goes up, it means the company is doing better than expected. If not, then you might be able to spend the $2,500 to buy more shares at a lower price.

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

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