



Is Loblaw Companies Limited the One Stock You Must Own Today?

Description

Loblaw Companies Limited ([TSX:L](#)), the largest retailer in Canada, announced second-quarter earnings results before the market opened on July 23, and its stock has responded by rising over 2%. Let's take a closer look at the results to determine if this could be the start of a sustained rally higher and if we should consider establishing positions today.

The results that ignited the rally

Here's a summary of Loblaw's second-quarter earnings results compared to its results in the same period a year ago.

Metric	Q2 2015	Q2 2014
Adjusted Earnings Per Share	\$0.85	\$0.74
Revenue	\$10.54 billion	\$10.31 billion

Source: Loblaw Companies Limited

Loblaw's adjusted earnings per share increased 14.9% and its revenue increased 2.2% compared to the second quarter of fiscal 2014. The company's double-digit percentage increase in earnings per share can be attributed to its adjust net income increasing 17.8% to \$350 million, but this growth was slightly offset by its weighted average number of diluted shares outstanding increasing 3.4% to 416.7 million. Its strong revenue growth can be attributed to revenues increasing in all three of its major segments, including 2.2% growth to \$10.32 billion in its Retail segment, 3.6% growth to \$199 million in its Financial Services segment, and 7.6% growth to \$183 million in its Choice Properties segment.

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

1. Excluding fuel sales and the negative impact of a change in distribution model by a tobacco supplier, food retail same-store sales increased 4.2%
2. Same-store sales increased 3.8% at Shoppers Drug Mart

3. Same-store pharmacy sales increased 3.9% at Shoppers Drug Mart
4. Front-of-the-store same-store sales increased 3.7% at Shoppers Drug Mart
5. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 7.9% to \$857 million
6. Adjusted EBITDA margin expanded 40 basis points to 8.1%
7. Adjusted operating income increased 14.4% to \$612 million
8. Adjusted operating margin expanded 60 basis points to 5.8%

Loblaw also announced that it will be maintaining its quarterly dividend of \$0.25 per share, and the next payment will come on October 1 to shareholders of record at the close of business on September 15.

Will the rally in Loblaw's shares continue?

Loblaw was firing on all cylinders in the second quarter, so I think its stock has responded correctly by rising over 2%. I also think the stock could rally much higher from here, because it still trades at favorable forward valuations and because it has shown a dedication to maximizing shareholder value through the payment of dividends.

First, Loblaw's stock trades at just 19.8 times fiscal 2015's estimated earnings per share of \$3.49 and only 17.3 times fiscal 2016's estimated earnings per share of \$4.00, both of which are inexpensive compared to the industry average price-to-earnings multiple of 30.6.

Second, Loblaw pays a quarterly dividend of \$0.25 per share, or \$1.00 per share annually, giving its stock a 1.4% yield at today's levels. A 1.4% yield may not impress you at first, but it is very important to note that the company has increased its dividend for four consecutive years, and its increased amount of free cash flow could allow this streak to continue for another four years at least.

With all of the information above in mind, I think Loblaw represents the best long-term investment opportunity in the Canadian retail industry. Foolish investors should strongly consider beginning to scale in to positions over the next couple of trading sessions.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

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