Is George Weston Limited a Buy Following its Strong Q2 Results?

Description

George Weston Limited (TSX:WN), the largest food processor and distributor in Canada and the company behind **Loblaw Companies Limited** and Weston Foods, announced second-quarter earnings results on the morning of July 31, and its stock has responded by making a slight move to the upside. Let's take a closer look at the results to determine if we should consider establishing long-term positions today, or if we should wait for a better entry point in the weeks ahead.

A quality quarterly performance

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

Metric	**Q2 2015**	**Q2 2014**
Adjusted Earnings Per Share	$1.33	$1.25
Revenue	$10.85 billion	$10.60 billion

Source: George Weston Limited

George Weston's adjusted earnings per share increased 6.4% and its revenue increased 2.4% compared with the second quarter of fiscal 2014. Its strong earnings-per-share growth can be attributed to its adjusted net income increasing 6.5% to $180 million, primarily due to a strong operational performance in its Loblaw segment. Its slight revenue growth can be attributed to revenues increasing in both of its major segments, including 2.2% growth to $10.54 billion in its Loblaw segment and 7.7% growth to $464 million in its Weston Foods segment.

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

1. Adjusted earnings before, interest, taxes, depreciation, and amortization (EBITDA) increased 6.3% to $913 million
2. Adjusted EBITDA margin expanded 30 basis points to 8.4%

3. Adjusted operating income increased 11.1% to $649 million
4. Adjusted operating margin expanded 50 basis points to 6%
5. Adjusted debt decreased 5.4% to $11.12 billion
6. Ended the quarter with $1.59 billion in cash and cash equivalents, an increase of 14.3% from the beginning of the quarter

George Weston also announced that it will be maintaining its quarterly dividend of $0.425 per share, and the next payment will come on October 1 to shareholders of record at the close of business on September 15.

Could George Weston's stock continue higher?

It was a solid quarter overall for George Weston, so I think its stock has responded correctly by making a move to the upside. I also think this could be the start of a sustained rally higher because the stock still trades at low forward valuations, including just 19.2 times fiscal 2015's estimated earnings per share of $5.77 and only 16.4 times fiscal 2016's estimated earnings per share of $6.75, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 27.1 and the industry average multiple of 30.2.

I think George Weston's stock could consistently trade at a fair multiple of at least 22, which would place its shares upwards of $126 by the conclusion of fiscal 2015 and upwards of $148 by the conclusion of fiscal 2016, representing upside of more than 13% and 33%, respectively, from today's levels.

In addition, George Weston pays an annual dividend of $1.70 per share, which gives its stock a 1.5% yield at current levels. The company has also increased its dividend for three consecutive years, showing that it is dedicated to maximizing shareholder value, and its consistent free cash flow generation could allow this streak to continue for the next several years.

With all of the information above in mind, I think George Weston represents one of the best long-term investment opportunities in the market. Foolish investors should take a closer look and strongly consider beginning to scale in to positions today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)
2. TSX:WN (George Weston Limited)

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