



Is Loblaw Companies Limited Still a Good Buy?

Description

Loblaw Companies Limited ([TSX:L](#)) is the largest food distributor and pharmacy store operator in the country; it has 2,300 locations and employs over 130,000 people.

Loblaw also provides health, apparel, and financial products and services across different segments. More than likely you've shopped in a Loblaw recently. In addition to the company namesake brand, Shoppers Drug Mart, No Frills, Superstore, and Joe Fresh are some of the 20 brands Loblaw has.

So, how is Loblaw doing?

Currently, the stock trades at \$72.20, which is only just shy of the 52-week high of \$72.58. Year-to-date, the stock is up over 16%, and over the course of a full year this more than doubles to an impressive 36%. Long-term investors will be pleased to know that the five-year change in price is a respectable 65%.

In terms of dividends, Loblaw pays a quarterly dividend of \$0.25 per share, \$1.00 annualized, with a yield of 1.4%.

In the most recent quarter, Loblaw reported retail segment sales of \$10.3 billion, which is a 2.2% increase over the same quarter last year. Both the food and drug retail segments reported moderate growth over last year, coming in at 4.2% and 3.7%, respectively.

Adjusted debt decreased in the quarter by over \$320 million, leaving just over \$350 million in remaining debt since the acquisition of Shoppers Drug Mart.

Analysts have consistently maintained an outperform rating on the stock for over five years with good reason. Price targets for Loblaw have been raised once again, with \$76 being mentioned.

Expand by closing?

Loblaw announced during the quarterly report that it would be closing 52 unprofitable stores over the next year, but did not identify which brands and locations of stores would be closing.

Loblaw now has over 20 brands, and there are times where several of the stores are placed so close to one another that they compete with one another, causing one store's sales to drop at the expense of another store.

This is particularly true of Loblaw when considering the number of stores that have pharmacies in them and nearby (sometimes next door) there is a Shoppers Drug Mart.

The Joe Fresh brand, which has several large locations in New York, will also be closing some locations, as the company has hired a broker to sublease the 110 Fifth Ave and 510 Fifth Ave locations in Manhattan.

The Bottom line

Despite these closings, there is something to be said about maintaining a healthy balance sheet and knowing when to take action on non-performing locations and ending any cannibalization across nearby locations.

There is also still plenty of expansion in the company. The historical Loblaw building at the foot of Bathurst St. in Toronto that once housed the company head office is slated to become a 50,000 square foot new Loblaw store, and will also consist of two condo towers, bringing over 240,000 square feet of retail and office space.

Overall, a series of strong results, a continued commitment to existing profitable stores, a healthy dividend, and a willingness to expand where opportunities arise are just a few reasons why investors should include Loblaw in their portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:L (Loblaw Companies Limited)

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