



3 Reasons Why Loblaw Companies Limited Belongs in Every Portfolio

Description

Loblaw Companies Limited ([TSX:L](#)), one of the largest owners and operators of grocery stores and pharmacies in Canada, has widely outperformed the overall market in 2015, rising over 18% as the TSX Composite Index has fallen about 3%, and I think it could continue to do so for the next several years. Let's take a look at three of the primary reasons why this could happen and why you should consider making it a core holding of your portfolio.

1. Its strong financial performance could support a continued rally

On the morning of July 23 Loblaw released its earnings results for its three and six-month periods ending on June 20, 2015, and its stock has responded by rising over 9% in the weeks since. Here's a breakdown of 10 of the most notable statistics from the first half of fiscal 2015 compared with the first half of fiscal 2014:

1. Adjusted net income increased 44.7% to \$651 million
2. Adjusted earnings per share increased 19.7% \$1.58
3. Revenue increased 17% to \$20.58 billion
4. Food retail same-store sales increased 2%
5. Drug retail same-store sales increased 3.4%
6. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 29% to \$1.65 billion
7. Adjusted EBITDA margin expanded 70 basis points to 8%
8. Adjusted operating income increased 40.5% to \$1.16 billion
9. Adjusted operating margin expanded 90 basis points to 5.6%
10. Free cash flow increased 115.6% to \$733 million

2. Its stock trades at inexpensive forward valuations

At current levels, Loblaw's stock trades at just 20.9 times fiscal 2015's estimated earnings per share of \$3.52 and only 18 times fiscal 2016's estimated earnings per share of \$4.10, both of which are inexpensive compared with the industry average price-to-earnings multiple of 23.4 and its long-term

growth potential.

I think Loblaw's stock could consistently command a fair multiple of at least 23, which would place its shares upwards of \$80 by the conclusion of fiscal 2015 and upwards of \$94 by the conclusion of fiscal 2016, representing upside of more than 8% and 27%, respectively, from today's levels.

3. It has increased its dividend for four consecutive years

Loblaw pays a quarterly dividend of \$0.25 per share, or \$1.00 per share annually, which gives its stock a 1.4% yield at current levels. A 1.4% yield may not seem very impressive at first, but it is 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 the next several years.

Is now the time for you to buy Loblaw?

I think Loblaw could continue to outperform the overall market going forward, because it has the support of very strong earnings and revenue growth in the first half of 2015, because its stock trades at inexpensive forward valuations, and because it has the added benefit of a 1.4% dividend yield with an active streak of annual increases. All Foolish investors should strongly consider making it a core holding.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

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