3 Reasons to Invest in George Weston Limited Today

Description

George Weston Limited (TSX:WN), the largest food processor and distributor in Canada and the company behind **Loblaw Companies Limited** and Weston Foods, has been one of the market's top performing stocks in 2015, rising about 9%, and I think it could continue to be over the next several years. Let's take a look at three of the primary factors that could send its shares higher in both the short and long term, so you can decide if it should become a core holding in your portfolio.

1. Its strong earnings results could support a near-term rally

On the morning of July 31, George Weston announced very strong earnings results for its three and six-month periods ending on June 20, 2015, but its stock has responded by making a slight move to the downside in the weeks since, primarily due to the downturn in the market. Here's a summary 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 16.7% to $342 million
2. Adjusted earnings per share increased 17.8% to $2.52
3. Total revenue increased 16.7% to $21.26 billion
4. Revenue increased 17% to $20.58 billion in its Loblaw segment
5. Revenue increased 10% to $968 million in its Weston Foods segment
6. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 25.3% to $1.76 billion
7. Adjusted EBITDA margin expanded 60 basis points to 8.3%
8. Adjusted operating income increased 34.1% to $1.24 billion
9. Adjusted operating margin expanded 70 basis points to 5.8%
10. Cash flow from operating activities increased 52.8% to $1.55 billion

2. Its stock trades at inexpensive forward valuations

At current levels, George Weston's stock trades at just 18.9 times fiscal 2015's estimated earnings per share of $5.80 and only 15.9 times fiscal 2016's estimated earnings per share of $6.87, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 27.1 and the industry average multiple of 27.5.

I think George Weston's stock could consistently trade at a fair multiple of at least 20, which would place its shares upwards of $116 by the conclusion of fiscal 2015 and upwards of $137 by the conclusion of fiscal 2016, representing upside of over 6% and 25%, respectively, from today's levels.

3. It has increased its dividend for three consecutive years

George Weston pays a quarterly dividend of $0.425 per share, or $1.70 per share annually, which gives its stock a 1.55% yield at current levels. A 1.55% yield may not peak your interest at first, but it is very important to note that the company has increased its dividend for three consecutive years, and its increased amount of free cash flow and low payout ratio could allow this streak to continue for the next decade.

Should you add George Weston to your portfolio?

I think George Weston could be one of the market's top performing stocks in both the short and long term. Its strong earnings results in the first half could support a near-term rally, its stock trades at inexpensive forward valuations, and it has a 1.55% dividend yield with an active streak of annual increases, which will amplify the potential returns for investors going forward. All Foolish investors should strongly consider making it a core holding today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WN (George Weston Limited)

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