Jean Coutu Group PJC Inc. Earnings: Here's What You Need to Know

Description

Jean Coutu Group PJC Inc. (TSX:PJC.A), one of the largest franchisers of pharmacies and one of the largest manufacturers of generic drugs in Canada, announced second-quarter earnings results before the market opened on October 7, and its stock responded by making a slight move to the upside in the day's trading session.

The stock still sits more than 28% below its 52-week high of $28.95 reached back in January, so let's take a closer look at the results to determine if we should consider initiating long-term positions today, or if we should avoid it for the time being.

Breaking down the quarterly results

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

Metric	Q2 2016	Q2 2015
Earnings Per Share	$0.29	$0.28
Revenue	$686.6 million	$674.4 million

Source: Jean Coutu Group PJC Inc.

Jean Coutu's earnings per share increased 3.6% and its revenue increased 1.8% compared with the second quarter of fiscal 2015. Its slight increase in earnings per share can be attributed to its net profit increasing 0.4% to $53.8 million and its weighted average number of shares outstanding decreasing 0.8% to 186.9 million as a result of its share repurchase activity.

Its slight revenue growth can be attributed to it making one net addition to its PJC network of franchised stores in the last year, bringing its total count to 417, and its total same-store sales increasing 2%, which led to its total network sales increasing 2.6% to $1.03 billion.

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

1. Same-store pharmacy sales increased 2.5%
2. Same-store prescription sales increased 2.4%
3. Same-store front-end sales increased 0.4%
4. Gross sales of Pro Doc drugs increased 1.9% to $49 million
5. Generic drugs represented 70% of total prescription sales, compared with 68.1% in the year-ago period
6. Operating income before amortization increased 0.9% to $81.7 million

Jean Coutu also announced that it will be maintaining its quarterly dividend of $0.11 per share, and the next payment will come on November 6 to shareholders of record at the close of business October 23.

What should you do with Jean Coutu's stock today?

It was a decent quarter overall for Jean Coutu, so I think its stock responded correctly by moving higher. I also think this could be the start of a sustained rally higher, because the stock trades at inexpensive forward valuations and because it is a dividend-growth play, which will amplify the potential returns for investors going forward.

First, Jean Coutu's stock now trades at just 17.5 times fiscal 2016's estimated earnings per share of $1.18 and only 16.9 times fiscal 2017's estimated earnings per share of $1.22, both of which are inexpensive compared with its trailing-12-month price-to-earnings multiple of 17.9 and the industry average multiple of 22.7.

I think Jean Coutu's stock could consistently command a fair multiple of at least 20, which would place its shares upwards of $23.50 by the conclusion of fiscal 2016 and upwards of $24.25 by the conclusion of fiscal 2017, representing upside of more than 14% and 17%, respectively, from today's levels.

Second, Jean Coutu pays an annual dividend of $0.44 per share, which gives its stock a 2.1% yield. A 2.1% yield may not peak your interest at first, but it is important to note that it has increased its dividend for eight consecutive years, and its consistent free cash flow generation and low payout ratio could allow this streak to continue for the foreseeable future.

With all of the information above in mind, I think Jean Coutu represents a great long-term investment opportunity today. Foolish investors should strongly consider beginning to scale in to positions over the next couple of weeks.

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