Loblaw Companies Limited Announces Strong Q1 Results and a Dividend Hike: Should You Buy Now?

Description

Loblaw Companies Limited (TSX:L), Canada's food and pharmacy leader, announced strong first-quarter earnings results and a dividend hike on the morning of May 4, but its stock has responded by making a slight move lower. Let's break down the results to determine if this weakness represents a long-term buying opportunity or if we should wait for an even better entry point in the trading sessions ahead.

The results that met expectations

Here's a summary of Loblaw's first-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Q1 2016 Actual	Q1 2016 Expected	Q1 2015 Actual
Adjusted Earnings Per Share	$0.82	$0.82	$0.72
Revenue	$10.38 billion	$10.38 billion	$9.45 billion

Source: Financial Times

Loblaw's adjusted earnings per share increased 13.9% and its revenue increased 3.3% compared with the first quarter of fiscal 2015. Its double-digit percentage earnings-per-share growth can be attributed to its adjusted net income increasing 12.3% to $338 million, which it noted was due to strong results in its retail segment and $28 million of incremental net synergies related to its acquisition of Shoppers Drug Mart.

Its strong revenue growth can be attributed to its revenues increasing in all three of its major segments, including 3.3% year-over-year growth to $10.2 billion in its Retail segment, 4% year-over-year growth to $207 million in its Financial Services segment, and 5.5% year-over-year growth to $192 million in its Choice Properties segment.

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

1. Excluding fuel sales, food retail same-store sales increased 2.6%
2. Drug retail same-store sales increased 6.3%
3. Drug retail same-store pharmacy sales increased 4.2%
4. Drug retail same-store front store sales increased 8.2%
5. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 5.1% to $829 million
6. Adjusted EBITDA margin improved 10 basis points to 8%
7. Adjusted operating income increased 7.7% to $585 million
8. Repurchased 3.4 million shares for cancellation at a cost of $231 million

Dividend hike? Yes, please

Loblaw also announced a 4% increase to its dividend to $0.26 per share quarterly, and the next payment will come on July 1 to shareholders of record at the close of business on June 15.

Should you buy Loblaw today?

The first quarter was a great success for Loblaw, and its dividend hike is icing on the cake, so I think its stock should have responded by making a significant move higher. With this being said, I think the decline represents a great buying opportunity for the long term for two reasons in particular.

First, it's inexpensive. Loblaw's stock trades at just 17.7 times fiscal 2016's estimated earnings per share of $3.90 and only 15.8 times fiscal 2017's estimated earnings per share of $4.37, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 161.6 and the industry average multiple of 24.7. These multiples are also inexpensive given its estimated 13% long-term earnings growth rate.

Second, it's a dividend-growth play. Loblaw now pays an annual dividend of $1.04 per share, which gives its stock a yield of about 1.5% at today's levels. A 1.5% yield may not impress you at first, but it is important to note that the company has raised its annual dividend payment for four consecutive years, and its two increases since the start of 2015, including the one it announced today and its 2% hike in May 2015, have it on pace for 2016 to mark the fifth consecutive year with an increase.

With all of the information provided above in mind, I think all Foolish investors should strongly consider buying shares of Loblaw today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

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Date

2025/08/27
Date Created
2016/05/04
Author
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