



Why Loblaw Companies Limited Is up 2% Today

Description

Loblaw Companies Limited ([TSX:L](#)), Canada's food and pharmacy leader, announced its second-quarter earnings results this morning, and its stock has responded by rising over 3%. Let's break down the quarterly report and the fundamentals of its stock to determine if we should buy in to this rally or if we should wait for it to subside.

A strong quarter of top- and bottom-line growth

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

Metric	Q2 2016 Actual	Q2 2016 Expected	Q2 2015 Actual
Revenue	\$10.73 billion	\$10.75 billion	\$10.54 billion
Adjusted Earnings Per Share	\$1.01	\$0.94	\$0.84

Source: *Financial Times*

Loblaw's revenue increased 1.9% and its adjusted earnings per share increased 20.2% compared with the second quarter of fiscal 2015. Its slight increase in revenue can be attributed to growth in all three of its operating segments, including 1.7% year-over-year growth to \$10.49 billion in its Retail segment, 7.5% year-over-year growth to \$214 million in its Financial Services segment, and 8.2% year-over-year growth to \$198 million in its Choice Properties segment.

Its very strong earnings-per-share growth can be attributed to its aforementioned revenue growth paired with lower operating expenses, which led to its adjusted net income increasing 17.7% year over year to \$412 million, as well as its share-repurchase activity, which led to its weighted-average number of diluted shares outstanding decreasing 1.6% year over year to 409.9 million.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Excluding fuel sales, food retail same-store sales increased 0.7%
2. Drug retail same-store sales increased 4%
3. Drug retail same-store pharmacy sales increased 3.6%
4. Drug retail same-store front store sales increased 4.3%
5. Adjusted earnings before interest, taxes, depreciation, and amortization increased 7.8% to \$924 million
6. Adjusted operating income increased 14.5% to \$701 million
7. Cash flow from operating activities decreased 21.2% to \$733 million
8. Free cash flow decreased 26.7% to \$432 million
9. Repurchased two million of its common shares for a total cost of \$132 million
10. Total number of stores decreased by 31 to 2,411

Dividends? Yes, please!

Loblaw also announced that it would be maintaining its quarterly dividend of \$0.26 per share, and the next payment will come on October 1 to shareholders of record at the close of business on September 15.

Should you buy into the rally or avoid it?

It was a great quarter overall for Canada's food and pharmacy leader, so I think the market has reacted correctly by sending its stock higher. I also think it will continue higher from here and that it represents a great long-term investment opportunity for two primary reasons.

First, it trades at attractive valuations. Loblaw's stock still trades at just 19.2 times fiscal 2016's estimated earnings per share of \$3.86 and only 17.2 times fiscal 2017's estimated earnings per share of \$4.31, both of which are inexpensive given its estimated 12.6% long-term earnings-growth rate. Investors should be willing to pay up to 20 times next year's earnings for a high-quality company that's growing its earnings at a double-digit rate.

Second, it's a dividend-growth play. Loblaw pays an annual dividend of \$1.04 per share, which gives its stock a yield of about 1.4%. A 1.4% yield is far from high, but it's important to note that the company is currently on pace for 2016 to mark the fifth consecutive year in which it has raised an annual dividend payment, and its very strong growth of free cash flow, including its 28.8% year-over-year increase to \$944 million in the first half of 2016, and its very low payout ratio could allow this streak to continue for decades.

With all of the information provided above in mind, I think all Foolish investors should strongly consider beginning to scale in to long-term positions in Loblaw today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

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Date

2025/08/27

Date Created

2016/07/27

Author

jsolitro

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