Is Loblaw Companies Limited a Buy After Dipping 6%?

Description

From a 52-week high of about $74.50 per share, **Loblaw Companies Limited** (TSX:L) has fallen about 6% to roughly $69.50 per share. Is this a buying opportunity?

First, let's take a look at Loblaw's business.

The business

Loblaw is Canada's food and pharmacy leader with more than 2,400 stores. It offers grocery, pharmacy, health and beauty, apparel, general merchandise, and financial products and services through its subsidiaries.

You'll most definitely recognize its discounted stores, such as Superstore, no frills, and extra foods, and, of course, its retail pharmacy, including Shoppers Drug Mart.

Loblaw also owns three of Canada's top consumer brands: President's Choice, Life Brand, and no name.

How can Loblaw benefit your portfolio?

Loblaw should improve the stability of any portfolio as the company operates in the consumer staples sector in the grocery stores industry.

The company has a beta of less than 0.5, indicating it's two times more stable than the market (or half as volatile as the market).

Loblaw also pays a sustainable dividend. It yields 1.5% now, but the company has the capacity to grow it because it's only paying out 26% of its earnings.

Loblaw has hiked its dividend in the last four years. Its dividend is nearly 24% higher than it was five years ago.

Loblaw's earnings per share are expected to grow 10-13% per year in the next three to five years. So, it’s likely that investors can expect a growing dividend and steady price appreciation in the coming years (barring macro events, such as a recession).

Valuation

Other than earnings growth, how much investors pay for the shares also affects their total returns and starting yields. The lower the valuation you pay, the higher your expected returns and starting yields.

At $69.50, Loblaw trades at a forward price-to-earnings ratio (P/E) of about 16.2. This is a fair multiple to pay compared to Loblaw’s normal P/E of 16.7 in the last seven years.

Conclusion

Having a leading position in a stable industry, Loblaw is an investment that will make you sleep well at night. You can be reassured that Loblaw can maintain its dividend as it has for at least the last 18 years, given the company has a sustainable payout ratio of 26% and is expected to grow its earnings at a double-digit rate in coming years.

Since Loblaw trades at a fair valuation today, investors can expect total returns of about 11-14%, +/-2% for margins of error. The total returns estimate is based on its expected earnings growth and its dividend yield of about 1%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

Category

1. Dividend Stocks
2. Investing

Date
2025/08/23
Date Created
2016/09/23
Author
kayng