



## Is it Time to Abandon Loblaw Companies Limited?

### Description

**Loblaw Companies Limited's** ([TSX:L](#)) share price has essentially gone nowhere—it is nearly 3% lower than it was a year ago.

Should Loblaw shareholders abandon it and move on? Sure; that is, if they're short-term traders.

But long-term investors should do an investigation to determine if Loblaw's roughly 10% pullback from its 52-week high is a buying opportunity. That's because Loblaw is a stable business with bottom-line growth of at least 8% per year for the next few years.

### Stable industry, stable business

You probably shop at one of Loblaw's more than 2,400 stores at least once a week for grocery, pharmacy, health and beauty, apparel, or general merchandise products.

Other than Shoppers Drug Mart, Loblaw also operates under the banners of Superstore, No Frills, Extra Foods, and more. You'd recognize its popular brands, including President's Choice, no name, and Life Brand.

Additionally, Loblaw offers financial products and services, including but not limited to retail banking and credit card services. Loblaw is also a majority owner of **Choice Properties REIT** and earns a juicy 5.3% yield from it.

Loblaw falls under the consumer defensive sector. Since acquiring Shoppers Drug Mart in 2013, Loblaw has seen exceptional growth and has grown its earnings per share (EPS) every year. Specifically, from 2013 to 2015, Loblaw has compounded its EPS by 15.8% on average per year for total growth of 34%.

### Dividend

Loblaw's dividend isn't much. At \$66.55 per share, Loblaw only yields 1.5%. However, as the business grows it has been steadily hiking its dividend. Since 2013 Loblaw has grown its dividend every year for

a total of 9.6%.

Loblaw's debt-to-cap ratio of 42% is higher than its peers'. **Metro's** is 29% and **Empire's** 33%. Loblaw's higher debt levels may be dragging on its below-average dividend growth.

In the fiscal years of 2013-2016, Metro's and Empire's dividend growth has been 70% and 25%, respectively—much higher than Loblaw's 9.6%.

Going forward, investors should expect Loblaw's dividend growth to lag Metro's because of its heavier debt loads. Empire, on the other hand, is facing hurdles, primarily with the Safeway integration.

## Conclusion

Loblaw is awarded an investment-grade S&P credit rating of BBB. The shares trade at a price-to-earnings ratio (P/E) of 17.3, and management expects to grow its EPS by 8-10% per year. So, the shares are fairly to fully valued.

**Thomson Reuters's** consensus analysts' 12-month price target for Loblaw is \$79.30 (across 13 analysts) with the lowest target price at \$75. This indicates a potential upside of 12-19%.

If Loblaw shares trade at the same P/E as it does now a few years down the road and management achieves the 8-10% growth target, an investment now can have annual returns of 9.5-11.5%.

## CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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