Jean Coutu Group PJC Inc. May Be Set for Another Takeoff!

Description

Shares of **Jean Coutu Group PJC Inc.** (TSX:PJC.A) may be about to offer up juicy returns yet again. There have been periods of incredible excitement, and in the "boring" periods, investors sit around collecting dividends while watching the stock move sideways.

Since 2012, the company has been able to increase its dividend from $0.27 per share to $0.47 per share in 2016. The increase translates to a CAGR (compounded annual growth rate) of 29.73% for the dividend alone. Before we get excited about this annual raise, let's look at the company.

Founded in 1969, the company has grown into an operation consisting of approximately 420 locations operated mainly through franchisees. The company sells prescription medications and a number of personal care items. Currently, there are 420 locations, translating to a growth in total locations of 2.58% since 2012, when there were 399 locations.

When the company operated 399 stores in 2012, the dividend of $0.27 per share yielded under 2% for most of the year as the share price was approximately $15 per share for a large part of the year. Currently, the share price is just over $20, and shares offer a yield in excess of 2.25%.

In addition to increasing the dividend, the company has also returned a significant amount of capital to shareholders through the buyback of shares outstanding. Since 2012, the share count has decreased from 214.4 million shares outstanding to 184.9 million shares outstanding as of August 27, 2016. The pie has shrunk by almost 14%, while shareholders who chose not to sell kept their piece intact. Their piece makes up a larger portion of the pie.

What should my expectations be?

As an investor, the most important question which needs to be asked every time is, What am I giving vs. what am I getting? In this case, one share which traded for $15 in 2012 can be purchased for $20 today. Any new buyer will give up $20 of their hard-earned money to be paid a yield in excess of 2.25%, while seeing their piece of the pie increase over time.

In this case, the dividend could continue to rise in the coming years as the company is clearly one of the dominant players in the Quebec pharmacy market; locations in Ontario and New Brunswick complement its core market very well.

With a beta of 0.15, shares are clearly defensive, offering new investors an excellent opportunity to get their feet wet while getting paid an increasing dividend to do so.

What makes this investment stand apart is the retail aspect, which will be one of the last to fall. When we get sick, rarely do we want to go home and comparison shop for the best value in medication. Instead, we go to our local pharmacy and purchase what we need. Delivery, if needed, is still done “old school” by a delivery driver as opposed to the things we buy online.

With a predictable business retail clients rely on throughout the year, this stock may be one of the finest opportunities in the retail sector.

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