Loblaw Companies Limited Is a Screaming Buy After Impressive Earnings

Description

Loblaw Companies Limited (TSX:L) and other Canadian consumer, defensive stocks have been going out of favour recently.

Investors now have the opportunity to pick up shares of quality defensive companies at a slight discount to their intrinsic value thanks to the trend of shifting capital from defensive names into cyclical ones. This trend that has pulled the defensive sector down by a substantial amount, but most of the individual defensive companies are still fundamentally strong and may be firing on all cylinders, like Loblaw is.

There's no question that it can be quite difficult to do well in the grocery sector since the margins are razor thin and there's little to no room for error. Food prices are dropping, and many other Canadian grocers have been seeing some weakness.

Loblaw recently reported its Q4 2016 earnings. The company caught many by surprise when it reported a profit increase of a whopping 57% for Q4 to $201 million. The management team was able to decrease prices, and customers have been responding very positively. Revenue was up in Q4 $265 million to $11.13 billion and on an adjusted basis; the company had $0.97 EPS compared to $0.87 EPS during the same quarter last year.

I'm very impressed with how the management team was able to obtain terrific results even with the trend of declining food prices. The business still continues to grow despite industry headwinds, and this is why I believe Loblaw is a terrific long-term play for investors looking to beef up their exposure to the defensive sector.

As we head into a digital age, Galen G. Weston, chairman and CEO, stated that there has been "[l]ots of consideration about home delivery" in order to compete with the likes of **Amazon.com, Inc.,** which is making its entry into the grocery scene.

While the management team is considering home delivery, they believe "Click & Collect" will the be the future. Weston stated, "our view is today that Click & Collect is in the best interest of the consumer."

The company is set to invest even more money into its Click & Collect platform going forward, and this could be a huge long-term driver of same-store sales.

Sure, it’s convenient to get all of your food delivered straight to your door, but with food, it might be better for a consumer to stop by one of the many stores to pick up their goods. This way, customers can have things aligned with their schedules instead of waiting for food to arrive at a designated time and paying delivery charges, which may come in the form of a subscription. They can also examine their fruits and vegetables and make an exchange on-site if there are any problems.

Will the future of grocery distribution be delivery, or will customers prefer stopping by a store to collect their groceries? I believe there’s a huge market for both, but Click & Collect may be the more popular choice among Canadians considering there’s usually a Loblaw store close to their homes.

The future looks promising for Loblaw, even if food prices continue to decline. I’m bullish on Loblaw and would pick up shares today while the defensive sector remains relatively unpopular with the average investor.

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Date
2025/08/27
Date Created
2017/02/27
Author
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