



1 Grocery Stock Deep-Value Investors Should Consider

Description

Defensive stocks have been going out of favour lately thanks to a bullish vibe that has been going around since Trump won the election. Long-time bear Prem Watsa has eliminated a huge chunk of his short positions because he thinks the U.S. economy is getting stronger — a phenomenon that's likely to make short positions a huge loser over the medium to long term.

The general public is also more bullish, and we've seen the transition of capital from defensive stocks into cyclical names, which would provide more upside with a strengthening U.S. economy.

Stocks have had a magnificent upward run, and it's getting difficult to find value. But there is one sector that appears attractively valued right now, and that's the defensive sector.

Grocery businesses such as **Loblaw Companies Limited** ([TSX:L](#)) are terrific defensive plays that investors should be loading up on while they're out of favour with the general public. Sure, the Trump administration will give the bull new legs, but keep in mind that we're in the very late stages of an old bull market. It's important to have a defensive position to be prepared for the next stock market correction.

Could e-commerce giants penetrate Loblaw's moat?

A well-run grocery business with a large footprint has a really wide moat. The average consumer is never too far away from their local grocery store, and the rising threat of e-commerce is unlikely to steal a huge amount of business.

You may be aware that **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) has set its sights on the grocery business with its new AmazonFresh physical store and grocery delivery services. If you're a shareholder of a grocery company, then it's probably a reason to be worried, but here's why you shouldn't be.

Is "Click & Collect" the real future of grocery stores?

The management team at Loblaw is considering the future of grocery stores. They've considered the

delivery model, but have decided to go with the “Click & Collect” model. I believe the Click & Collect model trumps home delivery services because it’s more affordable and fewer things can go wrong.

Think about it. You can’t inspect and select your fruits and vegetables. And if there’s something that went wrong with the order, you’ll probably have to bring the goods back to the store, which would be inconvenient for you and would be detrimental to the grocery store’s margins.

Although the margins are razor thin, the management team at Loblaw has been operating in a very efficient manner. They’ve kept food prices low, and customers are relatively happy. I don’t think it makes sense for Amazon to be entering the grocery businesses because it’ll cost it way too much to compete with the likes of juggernauts like Loblaw.

Loblaw recently upped its quarterly dividend by \$0.27 per share following its earnings release, which saw quarterly profit up from the same period last year. Loblaw is firing on all cylinders as it aims to further strengthen its wide moat. If you’re a value investor looking to play defence, then look no further than Loblaw.

Stay smart. Stay hungry. Stay Foolish.

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TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:L (Loblaw Companies Limited)

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