



Loblaw Companies Limited: A Defensive Play for Any Portfolio

Description

Over the past few months, the phrase “grocery wars” has been used with increasing frequency; it refers to the practice of grocers aggressively pricing their merchandise to lure more customers into stores, who inevitably end up buying more than just the sale items and will likely return to the store in the future for additional sales.

Grocery stores are unique in that they provide an essential service to us that we don't really realize. We take for granted that there's a grocery store a few minutes away from our homes that provides for nearly all our food needs. And unlike other essential services, such as utilities, we rarely question what we pay for food.

The largest grocery chain in the country is **Loblaw Companies Limited** ([TSX:L](#)). It also happens to be the largest pharmacy operator in the country thanks to the company's ownership of the Shoppers Drug Mart brand.

Loblaw has a dizzying array of brands that encompasses some of the most well-known and respected brands, including President's Choice, No Name, and Life Brand. The company also has an impressive line-up of store labels which have drawn an impressive following, even outside Canada's borders.

Loblaw's e-commerce and hybrid-grocer play

One area of concern for traditional grocers over the past few years has been e-commerce. Many pundits think of groceries as the last remaining front that a mobile shopping experience has yet to conquer.

Loblaw has made significant progress on the e-commerce front through its online shopping portal, which allows shoppers to select their pick-up location and add products to their carts. Once paid for, Loblaw prepares all the goods for the shopper to pick up at a designated time.

This solution appears to be a happy medium between the traditional brick-and-mortar model and a full e-commerce implementation and has proven wildly popular for Loblaw. The only remaining aspect of adopting a full online experience is the delivery portion, which, in many cases, adds significant cost

and risk.

One advantage that Loblaw has over the competition is the network of Shoppers Drug Mart stores. These pharmacy stores are much smaller than the typical Loblaw store, but they provide nearly the same level of national coverage.

Loblaw has placed selected grocery products in Shoppers locations, thereby creating another option for consumers that need a few items on the way home who would rather not go to a larger grocery store.

Quarterly results

In the most recent quarter, Loblaw reported operating income of \$492 million, representing an increase over the \$436 million reported in the same quarter last year. From an earnings perspective, Loblaw posted net earnings attributable to common shareholders of \$233 million, bettering the \$196 million from the same quarter last year by 18.9%.

On a per-share basis, Loblaw earned \$0.57 per diluted share in the quarter — 21.3% better than the \$0.47 per share diluted reported in the same quarter last year.

Is Loblaw a good investment?

In my opinion, Loblaw remains a good investment option for three reasons.

First, Loblaw's move towards an e-commerce model is admirable and ahead of the competition. This factor alone will help Loblaw take a larger share of the growing online market, particularly from millennials who prefer online shopping.

Second, Loblaw continues to provide improved results with each passing quarter. Critics point to the shrinking growth margins with each passing quarter, but are reluctant to factor in that Loblaw is undergoing a transformation to a more online model, and that the industry is in an aggressive price war that is putting immense downward pressure on prices.

Finally, Loblaw is a defensive stock. People need to purchase food. That won't change, and, for the moment, Loblaw is the largest grocer in the land.

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