Why Loblaw Companies Limited Is Down Over 1% Today

Description

Loblaw Companies Limited (TSX:L), Canada's food and pharmacy leader, announced better-than-expected second-quarter earnings results before the market opened this morning, but its stock has reacted by making a slight move to the downside. Let's take a closer look at the results and the fundamentals of its stock to determine if this decline represents a long-term buying opportunity or if we should wait for an even better entry point in the trading sessions ahead.

Breaking down the earnings beat

Here's a quick breakdown of 10 of the most notable statistics from Loblaw's 12-week period ended on June 17, 2017, compared with the year-ago period:

Metric	**Q2 2017**	**Q2 2016**	**Change**
Revenue	$11,079 million	$10,731 million	3.2%
Operating income	$626 million	$517 million	21.1%
Adjusted EBITDA	$985 million	$924 million	6.6%
Adjusted EBITDA margin	8.9%	8.6%	30 basis points
Adjusted net earnings	$445 million	$412 million	8%
Adjusted earnings per share	$1.11	$1.01	9.9%
Operating cash flow	$872 million	$733 million	19%
Free cash flow	$547 million	$432 million	26.6%
Food retail same-store sales growth	1.2%	0.4%	80 basis points
Drug retail same-store sales growth	3.7%	4%	(30 basis points)

What should you do with Loblaw stock today?

I think it was a great quarter overall for Loblaw, and the results surpassed the consensus estimates of analysts polled by **Thomson Reuters**, which called for adjusted earnings per share of $1.10 on revenue of $11.05 billion. With this being said, I think the decline in its stock makes it an even more attractive long-term buy for two primary reasons.

First, it's stock trades at attractive valuations. Loblaw stock now trades at just 15.8 times fiscal 2017's estimated earnings per share of $4.44 and only 14.6 times fiscal 2018's estimated earnings per share of $4.81, both of which are very inexpensive given its estimated 9.5% long-term earnings-growth rate.

Second, it's a great dividend-growth stock. Loblaw pays a quarterly dividend of $0.27 per share, representing $1.08 per share annually, which gives it a 1.5% yield. It has raised its annual dividend payment for five consecutive years, and its 4% hike in May has it positioned for 2017 to mark the sixth consecutive year with an increase, and I think its very strong growth of free cash flow will allow this streak to easily continue into the late 2020s.

With all of the information provided above in mind, I think Foolish investors should strongly consider initiating long-term positions in Loblaw today.

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Date
2025/08/27
Date Created
2017/07/26
Author
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