2 Ways to Turn Groceries Into Investment Dollars

Description

Loblaw Companies Ltd. (TSX:L) will post third-quarter earnings in mid-November. It has been an interesting year for this Canadian grocer, with its Click & Collect service coming into play at many stores, the changing landscape from competitors, and the announcement of higher minimum wage in Ontario. Nonetheless, it will be hard to knock Loblaw off as the top dog in the food business. The company is a household name, and it is somewhat diversified with business retail, financial services, and real estate.

Real estate is a separate business as of 2013, when Loblaw carved off assets to form **Choice Properties Real Estate Investment Trust** (TSX:CHP.UN). This approach seems to have worked pretty well for another retail giant, **Canadian Tire Corporation Limited**, when it created its own REIT called **CT Real Estate Investment Trust** around the same time. This trend is a compelling strategy to bring in dividend-seeking investors.

Loblaw mother ship or the REIT offshoot: which is right for you?

Let's dig into the numbers a bit.

Since its inception, the stock price for Choice is up 34%, during which time the stock also paid $0.65 per share annually or more in dividends. An investment of $10,000 would have been 1,000 shares in 2013 and now worth $16,000 with capital gains and dividend income combined. For comparison, a Loblaw investment would be worth $15,200.

Retail accounted for $34 billion of Loblaw's revenue during 40 weeks of 2016. Choice real estate revenue was $586 million over the same period, which means less than 2% of the money coming into the business is real estate dollars. More recently, as of Q2 in 2017 (24 weeks), retail revenue was $21 billion and Choice real estate revenue was $412 million. So, the real estate revenue breakdown continues to be only 2% of the overall business. It is worth mentioning that the Choice REIT business is comparable to Loblaw financial services, which involves credit cards and mortgage lending.

In terms of EBITDA, however, Choice is outpacing Loblaw. This might be expected because Choice is smaller and has room to grow. This is also due to the fact that Choice owns prime real estate in the form of retail business, but it also owns industrial businesses and land. For instance, Choice owns 3.5 acres of waterfront land in Toronto by Queen’s Quay.

Bottom line on this one: two-punch play

Owning both of these stocks is actually a good idea. The REIT could pay dividend income in an RRSP account, and the Loblaw stock would work in a TFSA account. Keep in mind that owning the REIT is akin to owning the mother company. So, it would be best to keep the portfolio allocation in mind.

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