



This Pharmacy Chain Posted a Strong Q2 and Could See Many Growth Opportunities Ahead

Description

Jean Coutu Group PJC Inc. (TSX:PJC.A) released its second-quarter results last week, which saw the pharmacy chain post an earnings per share of \$0.26, down from \$0.28 a year ago. Revenues of \$744 million were up 6% year over year, but the operating income before amortization (OIBA) was down 5%.

Let's take a closer look at whether or not the results make the stock a good buy today.

Increase in generic drug sales

The company's Pro Doc subsidiary, which manufactures generic drugs, saw sales increase 11% from a year ago, although overall OIBA was down 58%, which the company blames on changing industry conditions.

Growing sales and prescriptions

The company continued to build on its top-line growth with its pharmacy retail sales showing a 4.6% increase, while front-end retail sales were up 3.4% from the previous year. Prescriptions were also up 3.1% in the quarter, although less than the 4% growth that Jean Coutu saw a year ago.

Strong growth opportunities ahead

Although an increasing number of generic drugs coupled with lower prices will put downward pressure on Jean Coutu's sales outlook, changing demographics will ultimately provide many opportunities for pharmacy sales to increase. As the Canadian population gets older and more people need prescription drugs, Jean Coutu will be well positioned to benefit from the rising demand.

With **Metro, Inc.** ([TSX:MRU](#)) acquiring Jean Coutu, this could further create operational synergies and allow the brands to feed off one another's success. Together, the two companies will be able to serve more customers and provide a more consistent experience. It remains to be seen how the integration will work, but one thing is for certain, and that is that this will be an excellent opportunity for Jean Coutu

to benefit from being able to tap into Metro's vast network of stores.

Stable sales growth and strong profits

In the past few years, Jean Coutu has seen a slow but steady rise in its top line with 2017 showing sales growth of 4%, while the year before that, revenues increased by a little more than 1%. This is perhaps the biggest reason why the Metro acquisition will help Jean Coutu — the company has been struggling to find ways to grow sales. However, despite the lack of growth, the company has demonstrated a consistency in its top line.

More importantly, Jean Coutu has been able to average a strong 7% profit margin over the past three years and has proven to have a very stable business model that could easily pad its bottom line with strong sales growth.

Although gross margins of just 21% leave a lot to be desired, low operational costs have allowed Jean Coutu to offer low prices without turning out losses, which many companies are not able to do.

Is the stock a buy today?

Investors did not have much of a reaction to the company's stable, but unexciting earnings results. With a price-to-earnings multiple of 23, Jean Coutu is very similarly priced to the retail giant **Loblaw Companies Ltd.**, which owns Shoppers Drug Mart. This suggests that Jean Coutu might be a bit expensive at its current valuation, but with the opportunities that will be created by the Metro acquisition, the pharmacy chain might be a great long-term buy today.

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