Why Loblaw Companies Limited Is a Top Buy for Any Portfolio

Description

Loblaw Companies Limited (TSX:L) is one of the largest grocers in the country and competing ferociously with its peers for a portion of your weekly grocery budget. The competition between grocers has gotten so fierce that it has even been given a name of its own — the grocery wars.

Loblaw is the largest pharmacy/grocer in the country, with over 2,400 locations scattered around the country. The brand power of Loblaw is one of the company's key strengths, as its portfolio includes well-known brands such as President's Choice, No Name, and Life Brand. That brand portfolio includes well-known names such as No frills, Zehrs, Loblaws, and Fortinos.

Loblaw is also one of the largest employers in Canada, employing nearly 200,000 people. That number has been the source of concern for some investors, particularly as hikes to the minimum wage could eat into the company's bottom line.

Loblaw is evolving, but slowly

The recent acquisition of Whole Foods by **Amazon.com Inc.** raised eyebrows among investors, as the digital retailer is well known for shaking up the traditional retail sectors that it expands into. Online grocery ordering and delivery remains one the last few holdouts in the e-commerce revolution. People still prefer to see, feel, and smell their food prior to committing to a purchase, and groceries are far more delicate and prone to bruising and spoiling than other commodities, which makes delivery services more difficult and costly.

To that end, Loblaw has a click-and-collect feature that allows shoppers to order and pay for their groceries online and then pick up the merchandise from their local Loblaw store. This is a bridge to a full online ordering and delivery model that the market is arguably not ready for yet.

In terms of opportunity, Amazon's entry into the sector as well as hikes to the minimum wage have weighed down the stock in recent months, but that opportunity may be passing, as the stock is trading down just over 2% year to date, having recovered much of the pullback from earlier in the year.

In the most recent quarter, Loblaw realized revenue growth of 3.2% when compared to the same quarter last year, coming in at $11.079 billion. Net earnings for the second fiscal of 2017 came in at $364 million, a significant increase over the $156 million noted in the same quarter last year. On a per-share basis, Loblaw posted $0.89 per share diluted for the quarter — more than doubling the $0.39 per share diluted in the same quarter last year.

Should you buy Loblaw?

There’s no denying that Loblaw is a great investment opportunity. Groceries are something that we are all forced to buy, but unlike a utility, we have more choice and variety select from. This is where the brilliance of Loblaw’s branding model appeals to both ends of the spectrum.

Both the minimum wage hike and Amazon’s entry into the market are, in my opinion, overstated, at least for the moment.

A hike in the minimum wage will be offset in some ways because it will be applied across the entire economy, leveling the playing field and making it more of an issue for the market rather than just Loblaw. Additionally, some of the added income of those workers will come back in the form of increased sales.

As for Amazon, Whole Foods has a limited presence in Canada, and Amazon itself has little to any foothold in the online grocery delivery sector in Canada. While this could change, Amazon will almost certainly implement these changes in the U.S. market initially, giving Loblaw plenty of opportunity to respond.

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