



Why Loblaw Companies Limited Is up Over 1%

Description

Loblaw Companies Limited ([TSX:L](#)), Canada's food and pharmacy leader, announced its third-quarter earnings results yesterday morning, and its stock responded by rising over 1% in early trading. Let's break down the quarterly results and the fundamentals of its stock to determine if we should consider initiating long-term positions today.

A solid quarter of top- and bottom-line growth

Here's a quick breakdown of 12 of the most notable statistics from Loblaw's 16-week period ended October 7, 2017 compared with its 16-week period ended October 8, 2016:

Metric	Q3 2017	Q3 2016	Change
Revenue	\$14,192 million	\$14,143 million	0.3%
Operating income	\$1,236 million	\$690 million	79.1%
Adjusted EBITDA	\$1,229 million	\$1,143 million	7.5%
Adjusted EBITDA margin	8.7%	8.1%	60 basis points
Adjusted net earnings	\$549 million	\$512 million	7.2%
Adjusted earnings per share	\$1.39	\$1.26	10.3%
Operating cash flow	\$872 million	\$1,112 million	(21.6%)
Free cash flow	\$340 million	\$564 million	(39.7%)
Number of corporate stores	565	566	(0.2%)
Number of franchise stores	531	525	1.1%
Number of Associate-owned drug stores	1,333	1,324	0.7%
Total number of stores	2,429	2,415	0.6%

What should you do now?

It was a solid quarter overall for Loblaw, and it posted good results for the first nine months of the year, with its revenue up 1.2% to \$35.67 billion, its adjusted EBITDA up 6.3% to \$3.08 billion, and its

adjusted diluted EPS up 10.4% to \$3.08 compared with the year-ago period. That being said, I think the market has responded correctly by sending its stock higher, and I think it represents a great long-term investment opportunity for two fundamental reasons.

First, it's still undervalued. Even after the slight pop in its stock, Loblaw's stock still trades at just 15.9 times fiscal 2017's estimated EPS of \$4.41 and only 15.3 times fiscal 2018's estimated EPS of \$4.59, both of which are inexpensive given its current earnings-growth rate and its estimated 8.3% long-term earnings-growth rate.

Second, it's an up-and-coming dividend-growth star. Loblaw currently pays a quarterly dividend of \$0.27 per share, equal to \$1.08 per share on an annualized basis, which gives its stock a yield of about 1.5%. A 1.5% yield is far from high, but it's crucial to note that the company has raised its annual dividend payment each of the last five years, and [its 4% hike](#) in May has it on track for 2017 to mark the sixth consecutive year with an increase.

Loblaw is up more than 12% since I [first recommended it](#) in December 2014, and I think it still represents a great investment opportunity for the long term, so take a closer look and consider adding it to your portfolio today.

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