Loblaw Companies Ltd. Relies on Cost Cutting to Salvage a Q3 That Saw No Growth

Description

Loblaw Companies Ltd. (TSX:L) released its third-quarter results on Wednesday. Although revenues were flat year over year, Loblaw was able to see its earnings more than double from $415 million in 2016 to $894 million this past quarter. At an earnings per share of $2.24, the company saw a big improvement from the $1.03 in per-share earnings that it recorded a year ago.

The company also made some major announcements regarding store closures and a new home delivery service that Loblaw plans to roll out later this year.

Let's take a look at all of the news from Wednesday's release and assess if the stock is a good buy today.

Cost-cutting efforts pushing up profits

Despite showing no sales growth year over year, the company was able to turn out a profit due to its cost-cutting efforts. Selling, general, and administrative expenses dropped from $3.26 billion last year to $2.88 billion this quarter for a reduction of 11.5%, which added an extra $376 million to the company's operating income.

Overall, earnings before taxes were up $559 million, with most of the improvement coming a result of these cost reductions.

Retail continues to struggle

Loblaw saw just 0.2% growth in its retail sales for Q3. The biggest year-over-year increase came from the company's real estate segment which saw sales rise by 5.6%. Financial services were also up 4.8% from last year. However, sales from both non-retail segments combined for just $447 million in Q3, which was barely 3% of the $13.9 billion in sales that the retail segment did.

Like we saw with **Canadian Tire Corporation Limited** (TSX:CTC.A), retail sales are struggling, and companies are going need to expand other segments to continue to grow. Loblaw has limited potential to expand its business, as new locations would likely only cannibalize existing store sales.

Loblaw announces 22 store closures

In its earnings release, the company announced it would be closing 22 unprofitable stores. Although this will see Loblaw incur costs of $135 million, this move is expected to save the company $85 million in annual expenses. The store closures are expected to be completed by Q1 of 2018.

The retail industry is getting more competitive, and Loblaw is one company that is going to take a big hit from rising minimum wages. One way for the company to get in front of those costs is to reduce its expenses in advance of that. Loblaw already announced earlier in the year that it would be cutting about 500 office positions.

Delivery service to launch next month

Loblaw also announced that it would be launching a home delivery service which will roll out next month in Toronto and slowly expand to other Canadian cities after that. The company will offer delivery service for online orders that, in some cases, can be delivered within an hour.

Is Loblaw a buy?

The stock was flat on Wednesday, as the results initially excited investors, but ultimately the share price saw minimal improvement by the close. Retail has not been friendly to many companies in the industry, and it's hard to justify an investment there when we're seeing many similar companies struggle, and Loblaw is no exception.

While online delivery is an interesting venture, investors may want to wait to see the results of that before deciding whether to invest or not.

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