2 Reasons Loblaw Companies Ltd. Stock Could Be a Sneaky Pick in 2018

Description

Loblaw Companies Ltd. (TSX:L) released its third-quarter results on November 15. On the same day, it announced that it would close 22 stores that failed to meet profitability standards. CEO Galen G. Weston predicted that 2018 would be a "very difficult year" with a number of headwinds set to present challenges.

One of these challenges is the rise of e-commerce retail giant **Amazon.com, Inc.** as a legitimate competitor in the retail grocery business. In early November, I'd discussed how Amazon could create more competition with Loblaw and **Metro, Inc.** as it makes its foray into drug retail in the United States. Loblaw owns Shoppers Drug Mart, and Metro recently acquired Quebec-based pharma retailer Jean Coutu Group PJC Inc.

In spite of these obstacles, investors should not turn their back on Loblaw stock in 2018.

Minimum wage hike leads to modernization

In an October piece, I'd discussed whether or not the Ontario provincial government wage hike could actually help grocery retailers in the long term. Initial reaction from leaders in the industry was a mix of skepticism and anxiety.

Three years ago, Seattle voted to gradually increase its minimum wage to $15. A recent study released by the University of Washington suggests that the policy was not as beneficial to workers as intended. The study estimated that the average low-wage worker lost $125 per month as a result of the recent hike.

In July, Loblaw leadership estimated that the minimum wage hike would cost the company an additional $190 million in 2018. After making this estimation, the company vowed that it would do everything in its power to "close the gap." With many in retail and other industries moving to automation, the new policy merely provides the push that could speed along modernization.

Grocery delivery service set to be unveiled

Loblaw also announced that it would partner with Instacart to offer grocery delivery to its customers. Online grocery orders will be delivered to customer houses starting December 6, with the company boasting that delivery times could be “as little as one hour.”

Loblaw stock dropped with other traditional grocery retailers after news broke that Amazon would purchase Whole Foods Market, Inc. The acquisition raised the spectre of Amazon’s disruptive retail model, making grocers its next target. Loblaw has acted quickly in eliminating its unprofitable brick-and-mortar locations and seeking to offer an alternative to secure established customers who could be lured away by the e-commerce model.

E-commerce retail sales have surged in recent years. A recent report from Statistics Canada showed e-commerce retail sales up 41% year over year as of August 2017.

Is Loblaw Companies Ltd. a buy?

In its third-quarter results, Loblaw reported net earnings of $883 million compared to $464 million in Q3 2016 — an increase of 110.7%. The company declared a quarterly dividend of $0.27 per share, representing a 1.5% dividend yield. The stock declined 2.3% in 2017 as of close on November 16. Loblaw is well equipped to meet the challenges of 2018 and could be an attractive addition at its current price.

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