Loblaw Companies Ltd. Is Getting a Home Delivery Service: Time to Buy?

Description

Loblaw Companies Ltd. (TSX:L) recently reported a very strong Q3 2017, beating expectations on the bottom line by a considerable amount. Management appears optimistic about its ability to grow earnings next year, despite the entrance of **Amazon.com, Inc.** (NASDAQ:AMZN) to the Canadian grocery space.

There's no question that Amazon has the potential to shake up the entire Canadian grocery market, but Loblaw isn't going down without a fight. The management team at Loblaw realizes the importance of an e-commerce platform, despite Galen G. Weston's initial favouring of a Click & Collect platform, which I thought wouldn't cut it with Amazon's quicker than expected entry into the Canadian grocery market.

Click & Collect is a nice feature that caters to some Canadians, but let's face it; if there's an option for free delivery, who wouldn't prefer that over having to drive to the nearest Loblaw location, even if it's in close vicinity? The stay-at-home economy is here to stay, and it's clear that a huge chunk of Canadians value convenience just about as much as they value low prices.

Loblaw recently announced its intent to fight the up-and-coming e-commerce disruption with an internet-based delivery service of its own, which will be launched this December. Loblaw has barely dipped its toe into the e-commerce waters, so the company is going to have a tough task ahead of it as it attempts to adapt in the evolving grocery market.

Fortunately, Loblaw is teaming up with Instacart, a grocery delivery service started by an ex-Amazon employee, to get an e-commerce platform up and running before the pressures from Amazon begin to mount.

Solid Q3 2017, but investors still appear to be afraid of the Amazon effect

Loblaw clocked in an adjusted EPS of $1.39 for the quarter, beating the street consensus of $1.30. Revenue was clocked in at $14.19 billion for the quarter, slightly higher than the $14.14 billion recorded a year earlier.

Management also announced its intent to close 22 unprofitable stores, as the company looks for more ways to offset the effects of minimum wage hikes.

Bottom line

Loblaw has done an impeccable job so far in an environment that's about to become even more challenging. It's definitely possible that the company will defend its market share as Amazon enters the Canadian grocery space, but there's still a huge cloud of uncertainty following Loblaw, at least for the long term. Amazon has the superior logistics capability, so there's still a risk if Loblaw's delivery service can't match that of Amazon's.

If you think Loblaw can beat e-commerce giants at their own game, then now may be the time to pick up shares, but keep in mind that things could take an ugly turn should the technological shift not go according to plan.

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