These Food Retailers Look Cheap: Which Is the Better Buy?

Description

Food retail stocks have really come off in the last year. The stock of **Alimentation Couche-Tard Inc.** (TSX:ATD.B) has declined nearly 20% from its highs. **Loblaw Companies Ltd.** (TSX:L) stock is ~19% lower than its 52-week high. Which is the better buy?

A business overview

Couche-Tard is a convenience store leader with +10,000 stores in North America, of which ~86% have road transportation fuel dispensing. Couche-Tard also has a European network of +2,700 stores, the majority of which offer road transportation fuel and convenience products.

Furthermore, Couche-Tard has +1,900 stores under licensing agreements in 14 other countries and territories: China, Costa Rica, Egypt, Guam, Honduras, Hong Kong, Indonesia, Macau, Malaysia, Mexico, the Philippines, Saudi Arabia, the United Arab Emirates, and Vietnam.

Loblaw is Canada's largest retailer with nearly 2,500 corporate, franchised and associate-owned locations. It has full-service pharmacies in +1,300 Shoppers Drug Marts.

The minimum wage hikes in Canada will have less impact on Couche-Tard because of its global diversification.

Dividends

Couche-Tard has hiked its dividend per share for eight consecutive years with a five-year dividend-growth rate of ~29%.

Notably, the stock has maintained the same dividend for the last six quarters. The company needs to increase its dividend in the next two quarters to maintain its dividend-growth streak. Couche-Tard's payout ratio is estimated to be ~11% this year. At ~$53.80 per share, it offers a yield of ~0.70%.

I suspect management is focused on deleveraging after its huge acquisition of CST Brands in mid-2017. The global convenience store leader remains a strong free cash flow generator. So, I don't see any reason the company will halt its dividend-growth streak.

Moreover, in the last decade, Couche-Tard has had a few years of slow dividend growth (4% and 7%). Investors should be prepared for slow dividend growth occasionally, but the growth story is still intact.

Loblaw has increased its dividend per share for six consecutive years with a five-year dividend-growth rate of ~4.7%. Its payout ratio is estimated to be ~23% this year. At ~$63.40 per share, Loblaw offers a yield of ~1.7%.

Investors should note that a tiny portion (<2%) of Loblaw's dividend is ineligible. In my view, this is negligible; because its yield is quite small, investors should focus on potential price appreciation instead.

Which is the better buy?

Couche-Tard trades at a multiple of ~16.3, while the analyst consensus from **Thomson Reuters** thinks the company will grow its earnings per share by ~17.8% per year for the next three to five years.

Loblaw trades at a multiple of ~13.9, while the Reuters analyst consensus thinks the food retailer will grow its earnings per share by ~8.2% per year for the next three to five years.

Couche-Tard is trading at a more attractive valuation and can deliver much stronger total returns than Loblaw. We're talking about the potential of outperforming by +8% per year!

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kayng