Loblaw Companies Ltd (TSX:L): Should You Invest?

Description

Usually, investments in grocery stocks are great long-term investments. The required nature of buying and preparing food for ourselves provides grocery stores with an impressive moat that few other segments of the market can provide.

Loblaw Companies (TSX:L) is the largest grocer in the country with an impressive network of stores and even more impressive brand following.

But does Loblaw fit the bill as a great investment option for your portfolio?

Second-quarter results

Loblaw is typically a great investment option that shows strong growth prospects. The company's venture in acquiring Shoppers Drug Mart several years ago was proven incredibly successful, and it likely pushed its main competitor **Metro Inc**. to pursue its own pharmacy play through the acquisition of Jean Coutu Group last year.

That being said, Loblaw's second-quarter results announced last month painted a different story.

In the most recent quarter, Loblaw saw revenues drop 1.4% when compared with the same period last year. The food segment of the company saw nearly flat same-store growth rate of just 0.8%, and gas bar operations had a slightly better sales figure of 1% over the same quarter last year.

Operating income for the company came in at $561 million, reflecting a drop of 10.5% over the same quarter last year, while adjusted EBITDA came in 4.2% higher over the same period last year to $1,027 million.

Despite the drop in revenue, Loblaw still managed to post net earnings of $421 million, or $1.11 per share, which surpassed analyst forecasts of $1.09 per share.

Even with the analyst beat, Loblaw's earnings still came in 5.6% lower than the same quarter last year.

Food is going to cost more

While the earnings drop that Loblaw felt in the most recent quarter was largely attributed to wage increases and modifications to health coverage, the ongoing trade spat with the U.S. could drive prices for some goods higher, with the potential to impact sales. CEO Galen G. Weston echoed this sentiment, noting that there was “a very strong possibility of accelerating retail price inflation in the market.”

The over $16 billion in tariffs imposed by the federal government includes notable food products such as coffee, mayonnaise, and yogurt.

Apart from those potential price increases, there’s also the prospect of the loonie continuing to decline and transportation costs rising, which could also wreak havoc on prices for consumers.

Should you invest in Loblaw?

Despite the drop in the most recent quarter, Loblaw remains an intriguing long-term option for investors due to the following three key points:

First, there’s Loblaw’s coverage and our necessity for food. Yes, we could shop elsewhere, and following the bread price-fixing scandal last year, many consumers did opt to boycott Loblaw stores.

The truth of the matter, however, is that Loblaw has a vast array of products with an incredible brand following. The convenience of knowing that a Loblaw-owned store is within reach of most Canadians is just too hard to pass on.

Second, Loblaw offers a dividend that could appeal to some investors. The 1.76% yield may not seem like much, especially when compared with some of the income-focused investments on the market, but it is a growing yield that could help grow your nest egg.

Finally, there’s Loblaw’s stock price. The stock is flat year to date, and over the past two-year period the stock is actually down by just under 4%. While this doesn’t exactly scream discounted opportunity, the stock has recorded a gain of 50% over the five-year period.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/27
Date Created
2018/08/17
Author
dafxentiou