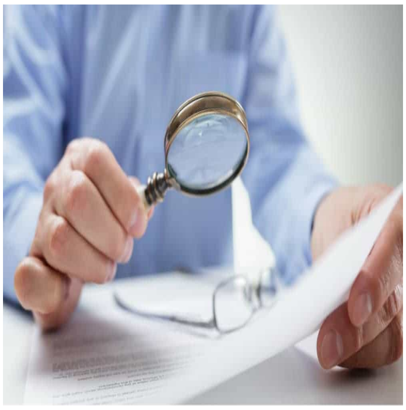

One Retailer Is More Attractive Than the Other

Description

Between **Loblaw Companies Ltd.** (TSX:L) and **Alimentation Couche-Tard** (TSX:ATD.B), which is a better buy today?

Loblaw

Loblaw has a lot to offer. It is Canada's largest retailer with about 2,500 corporate, franchised and associate-owned locations that range from discount stores to specialty stores. It has full-service pharmacies in more than 1,300 Shoppers Drug Mart stores.

Under its umbrella, Loblaw has three of Canada's top consumer brands: President's Choice, Life Brand, and No Name, which Canadians are familiar with.

In the first half of the year, Loblaw's revenue declined 0.9% to $21,290 million, operating income fell 7.2% to $1,041 million, and diluted earnings per share fell 23.8% to $1.12.

The declines were partly due to an increase in the cost of operation from minimum wage hikes and incremental healthcare reforms. As well, Loblaw also sold its gas bar operations in Q3 2017, which also had a negative impact on its year-over-year financial performance.

On an adjusted basis, Loblaw's EBITDA increased 2.6% to $1,903 million, and its EBITDA margin improved from 8.6% to 8.9%. As well, its adjusted earnings per share increased 1.5% to $2.05. The company's 4.8% reduction in the number of its outstanding shares also helped its financial results.

Given that Loblaw has been trading at a relatively cheap multiple from its recent past, it wasn't a bad move for Loblaw to buy back shares.

Alimentation Couche-Tard

Alimentation Couche-Tard is a leading global convenience store and road transportation fuel retailer. It has done an impressive job in expanding its empire from one convenience store in 1980 to more than 14,700 stores worldwide today (including about 10,000 in North America, about 2,700 stores in Europe, and about 2,000 stores in other parts of the world).

Couche-Tard has been acquiring other companies and extracting significant synergies from them, as well as applying the best practices across its platform. This has led to a strong financial performance with a double-digit compounded growth rate in its gross profit, EBITDA, and free cash flow over a number of years.

Once Couche-Tard pays down its debt for the 2017 CST Brands acquisition, it will be well positioned to further consolidate the fragmented industry to achieve double-digit growth.

Investor takeaway

An increased cost of operations in Canada will be the new norm for Loblaw and Couche-Tard. However, the impact will be much smaller (likely negligible) for Couche-Tard due to its global diversification.

For Loblaw, investors should observe over time how that impacts its valuation. Right now we see a compression in its multiple and stagnant shares year to date.

At $67.62 per share as of writing, Loblaw trades at a blended price-to-earnings (P/E) multiple of about 14.6, while the company is estimated to grow its earnings per share (EPS) by about 9% per year for the next three to five years. So, the stock looks reasonably valued with a PEG ratio of about 1.62.

At $65.86 per share as of writing, Couche-Tard trades at a blended P/E of about 18, while it is estimated to grow its EPS by about 13% per year for the next three to five years. So, the stock looks more undervalued than Loblaw with a PEG ratio of about 1.38.

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