



Retail Investors: Buy Loblaw Companies Ltd. (TSX:L) While it's Still Cheap

Description

One thing that constantly amazes me about Canada's grocers is, for the most part, they don't really seem to be taking the **Amazon.com** threat seriously.

Sure, our three largest grocers are dipping their toe into online retailing, but seem to be doing so as reluctantly as possible. Extra charges apply to have your groceries picked for you, with an additional charge for delivery if the store even offers it. This is little different than phoning in your grocery order, something these chains have done for decades now.

Amazon rewards its customers with all sorts of perks, further ensuring it is first in mind share. It's just so darn easy and convenient to order at Amazon. And for a small fixed price each year, customers don't have to worry about shipping costs. We all know people who shop at Amazon first, not even bothering to take a second to compare prices. This is a massive competitive advantage.

Compare that to our grocery sector. Nobody is loyal to just one store. We all shop around, picking off loss leaders at each chain. It's a cutthroat business where the only thing that ultimately matters is price.

Fortunately, for both consumers and investors, **Loblaw Companies** ([TSX:L](#)) is starting to realize it must be more like Amazon to compete against the giant. Here's why this could be a very big deal.

The online grocery market is up for grabs

Supermarket chains are faced with a tough decision. They know online ordering and delivery will be a massive market, but it's unclear just how profitable it'll be. I think they need to jump into it headfirst and worry about profits later, but I can understand why execs would be nervous about taking that approach.

Walmart figured this out a few years ago and has been pouring billions back into its e-commerce operations since. It's paying off; the chain expects some US\$15 billion in online sales next year.

Loblaw recently announced an initiative that finally proves it's taking online sales seriously. For just \$99/year, shoppers can get:

- Free e-commerce grocery pick-up
- Free shipping from Shopper's Drug Mart and Joe Fresh websites
- An extra 20% in PC Optimum points from certain products, including diapers and baby formula
- A special box filled with President's Choice-branded products delivered to their home
- A \$99 discount on a PC Travel booking

Although I'd like to see more from this — like free delivery of groceries purchased online — it's a big step in the right direction. This is a pretty decent value proposition.

Loblaw also does a nice job giving perks to its PC Optimum members. My wife and I have an account, and we're constantly getting offers for bonus points on certain items or additional bonus points if we hit \$25 or \$50 in total purchases. It's often enough to get us to visit our local store.

Shares are still cheap

The potential here is obvious. If Loblaw can seize a big part of Canada's online grocery market, it'll further cement its domination. This growth should help shares shoot higher.

Loblaw shares trade at just over \$61 each currently, which is just over 13 times forward earnings expectations. In other words, the stock is priced as if there is no potential growth from online grocery.

I disagree with this assessment. I believe in five years many Canadians will insist on getting their groceries online, especially those of us who live in densely populated cities. It's a massive potential market that's just getting started.

If Loblaw can end up dominating this market, it will not only serve to make Canada's largest grocer even stronger; it will add a growth story to a stock that desperately needs one. If you believe the future of Canadian grocery is heading online, you'll want to pick up Loblaw shares today, while they're still cheap.

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