3 Hidden Reasons Why Loblaw Stock Is Interesting At These Levels

Description

In the battle for retail dominance in Canada, **Loblaw Companies Ltd.** (TSX:L) has remained one of a handful of retailers with the market capitalization and positioning to maintain a coveted spot in the long-standing oligopoly that is retail.

In this article, I'm going to highlight three potential growth drivers for Loblaw for investors keen on gaining exposure to this sector.

Marijuana is key

In late December, it was announced that **Shoppers Drug Mart**, a subsidiary of parent Loblaw, had been granted a license to sell medical marijuana online after officially receiving notice in late 2018 that the company had been granted a license to sell medical marijuana. This reassured investors that the company would be able to utilize its online channel to bolster sales.

The cannabis growth story in Canada can't be denied, and I suspect that a significant portion of Loblaw's year to date increase of more than 6% can be attributed at least in part to this trend.

Technology is changing the game

As fellow Fool contributor Demetris Afxentiou has pointed out, new "shop and scan" technology that's being rolled out at select locations could drive growth in a sector reshaped by e-commerce forces. Instead of backing away from large investments from U.S. e-commerce companies, Loblaw does appear ready and willing to engage in embracing technological change to comply with changing consumer needs.

Loblaw's balance sheet could continue to improve

One of the primary concerns among many investors (myself included) with Loblaw is the level of debt the company needs in order to maintain to finance operations. With interest rates on the rise, a risk-off attitude from financial markets could end up hurting companies with less than pristine balance sheets in the intermediate term, such as Loblaw.

That said, the company's spin-off of its real estate division has improved the company's debt ratios substantially, which has been pointed out as a value creation initiative for investors.

Bottom line

In general, the Canadian retail space has not been friendly to investors. Looking at Loblaw's chart, an investor may notice that the company has remained below its peak seen in 2005. Fifteen years of "lost money" for investors certainly speaks to the consolidated and slow-growth nature of this sector.

For investors who are absolutely adamant on obtaining exposure to retail, Loblaw is certainly a company to consider. Generally speaking, however, I would caution long-term investors to consider opportunities in other sectors with better balance sheets in this current investing environment.

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