1 Discounted Top Canadian Stock for Your Portfolio

Description

Loblaw (TSX:L) operates one of Canada's most extensive grocery chains. 2020 was a remarkable year that tested the resilience of Loblaw's employees, the capacity of its stores and supply chain, and management's conviction in the company's strategy. In the end, all held strong as it pursued its purpose amid the most extraordinary of circumstances.

Managing through uncertainty

Stable winning has been at the centre of the company's strategic framework since well before 2020, but COVID-19 shook that concept to the core with volumes swinging from one extreme to another across categories and formats as the impact of the pandemic evolved at a dizzying pace. From initial stockpiling to the ebb and flow of lockdown restrictions, Loblaw's teams appear to have been called upon to adapt and respond to changing circumstances on a nearly hourly basis.

Early on, Loblaw made a series of decisions. It chose to focus on the health and safety of the company's customers and colleagues above all else, spending an average of $76 million per quarter in the process. The company chose to keep prices low for Canadians when it was needed the most. And, where it made sense, Loblaw accelerated the company's strategic initiatives.

Market share gains

In hindsight, these investments appear to have been the right thing to do, and as a result, the company's colleague engagement and customer satisfaction scores have never been higher. Now, although the pandemic continues, Loblaw looks to be operating with greater confidence. The company finished the year having held on to market share gains in conventional grocery, drug, and beauty, and saw improving trends in discount.

In the most recent fiscal year, Loblaw achieved same-store sales growth of 4.9% in drug retail and 8.6% in food retail, with revenue of $52.7 billion, growing 9.7%. Consolidated adjusted earnings was $5.0 billion, growing by 2.6%. Adjusted diluted net earnings per share was $4.26, growing by 3.4%.

The company generated over $2.2 billion in free cash flow and continued to return capital to shareholders by increasing the company's dividend by 3.2%. Loblaw also repurchased 13.3 million shares under a common share-repurchase program.

Robust digital retail strategy

As the future is considered, Loblaw appears to be very well positioned. Loblaw's core business is fundamentally healthy, and its strategy appears to be working. The company's investments are starting to bear fruit, Loblaw is gaining momentum and financial metrics are improving.

Furthermore, Loblaw's digital retail strategy saw rapid acceleration in 2020. As the pandemic brought lockdowns and stay-at-home orders, the company quickly scaled its PC Express offering and made it more affordable and accessible. Loblaw executed millions of customer orders, tripled its sales, and doubled the company's penetration across all of its digital businesses, including grocery, beauty, pharmacy, and apparel.

Also, Loblaw's e-commerce business is now generating close to $3 billion in revenue, and the company is leaning in even further by taking a close look at its performance relative to new and existing competitors, taking the steps required to maintain the company's leadership. This approach is likely to serve it very well over the long term.

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