Loblaw (TSX:L): This Red-Hot But Boring Stock Could Make a Run for $100

Description

After not doing much for many years, **Loblaw** ([TSX:L](#)) stock is finally making some [noise](#). Shares of the Canadian grocer are now up a staggering 41% year to date and up around 48% from its February 2021 bottom! What's behind the red-hot momentum in the boring stock?

The company has been firing on all cylinders. Not only has the operating performance been solid, but the company has also fared well with the inflationary environment. Food inflation is becoming problematic, but for Loblaw, the ordeal has not been a massive negative. Undoubtedly, it's proving itself to be a [terrific](#) place to hide from inflation. But with the valuation swelling considerably, is there still upside to be had in the defensive? Or could the name be in to surrender a massive chunk of its 2021 gains as COVID headwinds come back into play?

Loblaw: A boring stock with returns that have been anything but boring

What a magnificent year it's been for Loblaw. While past performance tells us nothing about what to expect moving forward (you've probably heard that once or twice in your investment career!), I think it's worth digging deeper into the details to determine whether or not this latest breakout is overstretched or if it still has room to run. If the latter, how much room and where could the stock find itself over the next 12-18 months?

First, management really deserves a round of applause after having effectively managed through the worst of COVID-19's lockdowns. The company has embraced e-commerce, and it's really paid off. Count me as one who doubted the company's abilities to win in the digital realm. After yet another quarter of exceptional performance, count me as a believer.

The company is putting money into its digital efforts, which should continue to give it the edge over its peers. Whether we're talking about enhanced click-and-collect efforts or a partnership with localgrocery delivery firms, it's clear that Loblaw isn't asleep at the wheel amid the fast-movingtechnological shift in the world of defensive retail.

It's not just digital that could propel Loblaw stock to and potentially above the $100-per-share mark. It's the company's impeccable marketing initiatives that could bring forth a greater affinity for its private-label brands. Undoubtedly, No Name is a go-to for those who seek the best bang for their buck. For those looking for a bit more, there's President's Choice.

Private-label brands could further bolster margins and sales

Both private-label offerings, I believe, have really had a chance to flex their muscles of late. Innovative product offerings such as the President's Choice Yuzu collection could allow Loblaw to differentiate itself from its peers. I must say that I'm a huge fan of the Yuzu line in particular and have found myself going out of my way to get some of the exclusive products with the delicious zest of Yuzu.

It's not just Loblaw grocery stores where you can find its intriguing private-label brands. You can also find them at Shoppers Drug Mart, which has proved to be a genius addition to the Loblaw portfolio over the years.

The valuation is a tad stretched at 22.8 times earnings. Given improving fundamentals, though, the stock may very well be worth the premium. But personally, I'm going to keep the name on my watchlist. I think patient investors could be rewarded with a near-term pullback. Although I love the direction Loblaw is headed, I'd have to say the name is more of a hold than a buy, purely because of valuation concerns. But if you're keen, I'm not against buying at $89.

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