Why Loblaw Stock (TSX:L) Surged 20% in August

Description

Loblaw (TSX:L) continued a winning streak in the last part of the summer, leaving investors wanting more. This albeit "boring" stock proved to be anything but boring when it came to share gains. Loblaw stock rose 20% from the end of July to the beginning of September and doesn't show any signs of slowing down. So let's look at what's going on with this hot stock on the **TSX** today.

What happened

The biggest reason Loblaw stock is up these days is thanks to the company's earnings report. On July 28, Loblaw management reported a solid quarter. In fact, Loblaw being an essential service hasn't hindered the stock during the pandemic but heightened its use. Consumers continue to eat at home rather than go out for meals. This had led to an increase in spending behaviours, whether it's through online pick-up or in-store shopping thanks to fewer restrictions and increased vaccinations.

Revenue was especially impressive, rising $534 million year over year to $12.491 billion, a 4.5% increase year over year. E-commerce dropped by 0.5%, but this was mainly because of an increase in in-store shopping. COVID-19 costs also dropped significantly to $70 million compared to $282 million the year before. Adjusted EBITDA increased 36% to $1.371 billion, and increased its dividend by 9% to boot! It was also expanding its PC Optimum loyalty program to now include Esso stations across Canada, starting in January 2022 on top of its further expansion of the program in the last year.

So what

I think it's clear. Loblaw stock managed to escape the pandemic relatively unscathed. Sales are up and are only set to rise higher from a variety of sources. Vaccinations mean there will be more in-store shopping once more, and that will see a significant increase in impulse buying. Fewer lockdowns also mean it can open up the non-essential items as well, such as clothing and house products. All of this will drive revenue higher.

And then there's the loyalty program. You can now seek out Loblaw stock through PC Optimum when you buy food, house products, beauty products, gas, and more. It's giving people all the more reason to choose Loblaw stock over others, and that's exactly what it wants. This should lead to top-line growth in both revenue and share price in the near and long-term future.

Now what

So yes, shares increased substantially from all this great news in August. But I wouldn't give up on this stock on the TSX today — far from it. This proves Loblaw stock can come out of a very uncertain time and rise to the occasion. Yet it still remains a relatively cheap stock to buy now! The company boasts an EPS of $3.91, and a fairly valued P/E ratio of 23.42, and a valuable 2.8 P/B ratio and 8.7 EV/EBITDA. On top of that, it has a dividend yield of 1.63% that just rose 9%, to add to the dividend compound annual growth rate (CAGR) of 4.3%!

Loblaw stock is therefore a strong long-term buy for Motley Fool investors on the TSX today. If you're looking for solid growth after and during the pandemic, go for boring. Boring is stable. Boring is strong. Boring does *not* have to be bad.

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