1 Great Canadian Stock That's Possibly Overdue for a Pullback

Description

It's really hard to take profits sometimes. But disciplined investors who've been in the game for a while know its importance. Indeed, incredible rallies, especially historic ones, simply cannot last forever, even if the rally is well supported.

As valuations swell across the TSX Index, I think it's a smart idea to take a step back and consider names that may be worth trimming with the intention of buying a bit more on a pullback.

Taking profits where there are profits to be had

While I'm not a huge fan of trimming or taking profits in proven winners that have done no wrong, I think it's only prudent to start doing at least some selling once a stock reaches a market price that's in excess of your estimate of its intrinsic value. Yes, it feels tough to ditch one of your portfolio's bigger winners. But at the end of the day, profits are for taking, and you can always repurchase shares at lower prices down the road, perhaps after a vicious pullback.

In this piece, we'll look at one of the hottest Canadian stocks that I believe may be overdue for a pullback in the range of 5-10%. The name is too hot for my liking and may find it tough to surpass a now high bar set ahead of it going into earnings season. Without further ado, consider **Loblaw** (TSX:L), one hot stock with nothing seriously wrong at the fundamental level, but it sports a valuation that may be just a tad too much to stomach, especially for value-conscious investors.

Loblaw: Historic rally, but momentum showing signs of waning

Loblaw is a Canadian grocery kingpin that's had an incredible year, rising over 52% year to date. Those are pretty unbelievable returns for a mere grocery firm. Have a glance at the longer-term chart, and you'll see that the recent rally is quite a historic one. Undoubtedly, Loblaw hasn't been a major upside mover over the years, as it endured a handful of challenges. Amid COVID, the company demonstrated profound resilience. These days, inflation has been weighing on the pocketbooks of investors, and Loblaw has done extraordinarily well, offsetting inflationary pressures on food items while still delivering a pretty solid value proposition to customers.

Loblaw had more than its fair share of operational issues in the past. I think it's fair to say that the new Loblaw has moved on, and it looks better than ever in a macro environment that's tough.

It's hard to find hair on Loblaw stock's quarters these days. Still, the stock is a tad too hot at around 23 times trailing earnings. Loblaw isn't a growth stud by any means, and competitive pressures could intensify over the coming years, as disruptors look to go after the market shares of the local grocery incumbents.

Loblaw's managers have shown a willingness to adapt, though, with pick-up options and all the sort. Moreover, exclusive branding has paid massive dividends for the firm. Indeed, creative new offerings like Loblaw's PC Yuzu line have not only been appealing; they're margin enhancers for Loblaw at a time when it needs it.

It's hard not to love how well the company has been doing these days. Still, I think a mild pullback (perhaps a 10% drawdown) seems likely over the coming months. If it does dip, I'd look to be a buyer.

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