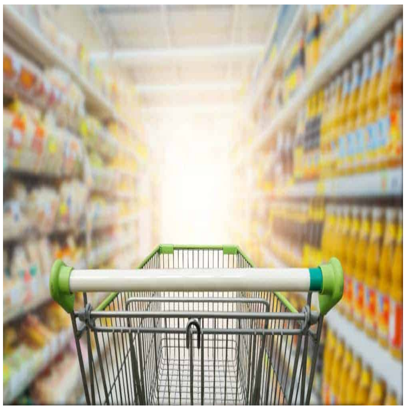

Loblaw (TSX:L): The Perfect Cheap Stock for 2022

Description

Loblaw (TSX:L) is showing no signs of slowing down after an impressive 2021 that saw it rally by more than 60%. The remarkable performance came as the retail and grocery giant emerged as a safe haven amid the pandemic shutdowns and supply chain hiccups.

Loblaw stock powered through the $100-a-share level, registering a new 52-week high. But I'm willing to argue that the stock still has momentum going into 2022. In fact, when adjusted for its risk profile and growth rate, Loblaw is actually a cheap stock. Here's why.

Improving financials

The company expanded its footprint by strengthening its popular curbside delivery service, targeting more customers since 2020. The easing of COVID-19 restrictions during the last quarter also saw the retailer see a strong rise in in-store and online demand.

In the last quarter of the year, revenue topped $16 billion, with COVID-specific costs shrinking 78% from a year earlier. Consequently, Loblaw registered a 10.3% year-over-year increase in adjusted EBITDA that landed at $1.7 billion. Earnings per share increased 24.2% to $1.59.

Dividend and valuation

The stellar financial results explain why the retailer increased its dividend offering lately. Loblaw's quarterly dividend currently stands at $0.36 a share, reflecting a 1.41% dividend yield. That dividend yield is paltry, but the stock's performance more than covers for it. A single-digit dividend yield doesn't matter when the stock is up 63% in 12 months.

Despite that stunning rally over the past year, this is still a cheap stock. Loblaw is trading at a price-to-earnings multiple of 23. That implies an earnings yield of 4.4% — better than average.

Meanwhile, the management team has *raised* its profit forecast. They now predict an adjusted net income growth rate of around 30% instead of the 20% they were expecting a year ago. This could be the result of sustained demand for basic essentials coupled with an improvement in the supply chain and operational costs.

When you adjust the P/E ratio for the growth rate (use the PEG ratio), Loblaw stock is trading below one. In other words, this cheap stock is an undervalued growth opportunity.

Bottom line

Essential businesses have been a safe bet for the past two years. Loblaw stock perfectly illustrates this. The company's market value has surged 50% since the pandemic erupted. Most of that gain was registered in 2021 alone.

This momentum could be sustained in 2022. Loblaw stock is still cheap — when adjusted for management's new growth rate forecast. Demand for essentials isn't likely to decline, but cost pressures and labour shortages should be resolved over time. In short, Loblaw stock is an ideal position to deliver steady capital appreciation. Add this cheap stock to your watch list for the year.

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