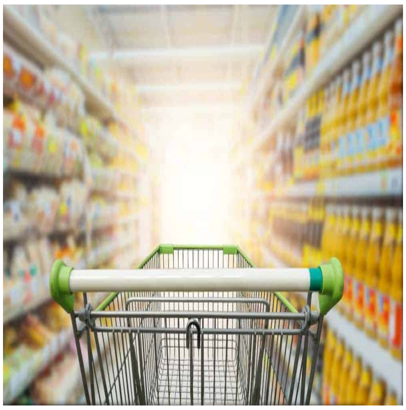

5-Minute Canadian Value Stock Analysis: Is Loblaw (TSX:L) Stock a Buy?

Description

Warren Buffett famously said that investors should buy the stocks of great companies and hold them forever. At the Motley Fool, we take Buffett's advice to heart and believe in the power of a long-term perspective when it comes to investing.

Although everyone likes to find a good, undervalued stock, sometimes it is better to buy the stock of a great company at an okay price, as opposed to the stock of a mediocre company at a good discount. The stocks of businesses with sustainable, excellent performance make ideal buy-and-hold stocks.

For this reason, new Canadian investors should focus on the stocks of blue-chip companies with excellent fundamentals, understandable business models, essential products and services, a wide economic moat, solid financial ratios, and good management.

Loblaw

As one of Canada's largest grocers, **Loblaw** (TSX:L) is a great consumer staple stock pick. Companies like Loblaw produce or sell staple that people must buy out of necessity regardless of economic conditions, such as food, beverages, and various household and personal products.

The company has endured since 1919 and currently engages in the grocery, pharmacy, health, and beauty, apparel, financial services, telecommunications, and general merchandise businesses through both corporate and franchise stores.

As a defensive stock pick, Loblaw has some great characteristics, such as a very low beta of -0.02. This makes it significantly less volatile than the market. The company is poised to weather crisis well, with $2.44 billion of cash on the balance sheet, a current ratio of 1.37, and operating cash flow of $4.83 billion.

Valuation

Loblaw is solid enough of a company that I would not worry about trying to time a good entry price. However, new investors should always be aware of some basic valuation metrics, so they can understand how companies are valued and what influences their current share prices.

Currently, Loblaw is trading at $111.76, which is near the 52-week high of $119.58. In the current fiscal quarter, Loblaw's 52-week low is $69.99. This is useful, as it allows investors to get a sense of the recent trading range and potential bottoms/peaks.

Loblaw currently has a market cap of $37 billion with approximately 333 million shares outstanding. This gives it an enterprise value of $51 billion with an enterprise value-to-EBITDA ratio of 8.61, which is similar to peers in the consumer staples sector

For the past 12 months, the price-to-earnings ratio of Loblaw was 19.10, with a price-to-free cash flow ratio of 7.91, price-to-book ratio of 3.20, price-to-sales ratio of 0.71, and book value per share of approximately $32.95. By these metrics, Loblaw looks fairly valued compared to sector peers.

Loblaw has a Graham number of $57.01 for the last 12 months — a measure of a stock's upper limit intrinsic value based on its earnings per share and book value per share. Generally, if the stock price is below the Graham number, it is considered to be undervalued and worth investing in. In this case, Loblaw's current share price is not undervalued.

Is it a buy?

Despite its current share price being fairly valued, long-term investors should consider establishing a position if they have the capital. Over the next 10-20 years, your entry price won't matter as much if Loblaw continues its strong track record of growth and profitability.

Consistently buying shares of Loblaw especially if the market corrects can be a great way to lock in a low cost basis. As a consumer staple stock, Loblaw could be an excellent defensive pick for a portfolio in case a recession occurs.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

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3. Msn
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Date
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