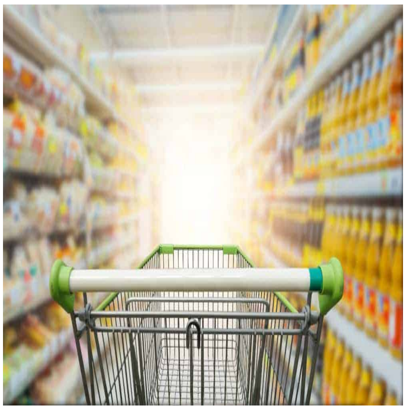

This Value Stock is Outperforming Amid Inflation

Description

Passive income investors looking for the biggest bang for their invested buck should be active buyers in this market.

Sure, it's been a turbulent 2022, and it could get even rockier as central banks, like the Federal Reserve or Bank of Canada, look to apply more pressure to inflation. It will not be easy to bring down inflation without causing economic damage and further stress on the housing market. In any case, inflation seems to be the ugliest of all beasts. And that's why Fed chairman Jay Powell sounded a tad more hawkish than markets would have liked during the central bank committee's meetings on economic policy direction this week.

Taking advantage of volatility

In any case, investors had better get used to volatility. The S&P 500 plunged as low as 24% in the first half, only to enjoy a remarkable 17% run off those June lows. Indeed, volatility works in both directions. Though volatility and wild summer swoons are perceived as a negative through the eyes of investors, it's actually a good thing for Foolish new investors seeking to get more equity exposure.

Big ups and downs increase the chances that the market misprices stocks. After a bear market move (a 20% fall from peak to trough), the odds of buying a stock at a discount to its true worth or intrinsic value are higher. As such, self-guided investors and stock pickers should embrace the recent barrage of choppiness, rather than looking to seek shelter in cash or risk-off assets.

To that end, let's take a closer look at one value stock that's made the most of the inflationary surge. Though inflation is a beast that swindles nearly everybody, according to Warren Buffett, Loblaw has been able to dodge and weave past such headwinds far better than other firms.

Without further ado, consider shares of Canadian grocery chain **Loblaw** (TSX:L).

Loblaw

Loblaw is a Canadian grocery kingpin that's done exceptionally well over the past year, crushing the TSX Index so far this year, with more than 20% gains year to date. Indeed, Loblaw's managers have done better amid inflation than most other firms, thanks to prudent cost controls and its robust private label, which had a chance to outshine with its lower-cost products over the past year.

As a grocer, Loblaw found itself in the right place at the right time amid scorching-hot food inflation. Though many may slam Loblaw for profiting off the inflation surge (CPI sits just below 8% at writing), the firm has made considerable changes to its business structure in recent years.

Undoubtedly, the Loblaw of today is far leaner than it was just a few years ago before the firm embarked on margin-driving initiatives. Significant investments in digital advertising and the various divestitures (think gas bars) have helped improve fundamentals across the board. The firm now boasts an ROE (return on equity) of 18.4%, just shy of the industry average of 19%.

As the private label continues to flex its muscles, I'd look for Loblaw to push its efficiency metrics towards, and eventually, above industry averages.

At just 0.7 times price-to-sales (P/S), Loblaw stock seems like a terrific value for those seeking robust dividend growth amid a potential economic slump. In May, the food retailer upped its dividend by four cents per share to 40.5 cents, the highest increase in more than a decade.

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