



George Weston (TSX:WN): Strong Earnings From Market-Leading Businesses

Description

Canada's primary stock market is in negative territory year to date (-6.36%) due to massive headwinds, such as rising interest rates and recession fears. The bright spot, however, is the better-than-expected earnings reported by **TSX** companies.

According to a report by Refinitiv (as of August 18, 2022), the second-quarter (Q2) 2022 earnings of 54.3% of the companies were above analyst expectations. For example, **George Weston** ([TSX:WN](#)) is the shining star in the consumer staples sector. The \$22.42 billion company aspires to create generational value, and, so far, it's running true to form. The stock is a strong buy right now for its market-leading businesses.

Business overview

George Weston's operating segments are down to two after it sold the entire Weston Foods bakery business in 2021. In 2022, the company's strength comes from its retail and real estate business. Its interests or ownership stakes are in **Loblaw** and **Choice Properties**. Both are also publicly listed companies in Canada.

Loblaw is a leading food and pharmacy company in the country. It has a network of corporate and independently operated stores in various communities across Canada. Choice Properties, a [real estate investment trust](#) (REIT), owns and operates retail properties leased to necessity-based tenants. The portfolio also includes industrial, office, and residential properties.

Financial highlights

Galen G. Weston, the chief executive officer (CEO) of the successful enterprise, said, “George Weston’s strong and [stable market-leading businesses](#) continue to drive long-term value as they execute against their strategic agendas ... Loblaw and Choice Properties delivered strong and consistent operating results during the second quarter and are well-positioned in the current economic environment.”

In the three months that ended June 18, 2022, total revenue increased slightly by 2.7% versus Q2 2022. However, net earnings available to common shareholders ballooned 487% year over year to \$634 million. According to management, the favourable year-over-year net impact of adjusting items worth \$472 million was one reason for the earnings growth

Loblaw delivered solid operational and financial results during the quarter. Besides the positive trend in the food retail business and strong performances of conventional stores, its drug retail business continues to drive overall margin expansion.

Choice Properties also delivered solid operating results in the second quarter. Its net income in the first half of 2022 increased by 1,530.4% to \$375 million compared to the same period in 2021. The focus of George Weston’s real estate business is long term.

The REIT aims to provide net asset value appreciation through stable net operating income growth and capital preservation. Its near-term plan is to continue executing its mixed-use and industrial development projects.

Lastly, George Weston derives free cash flow (FCF) from continuing operations from dividends and distributions received from Loblaw and Choice Properties. At the end of Q2 2022, FCF was \$377 million, or a 41.7% increase from the same quarter in 2021.

Strong shareholder gains

As of this writing, WN trades at \$154.88 per share and is up 6.48% year to date amid a challenging environment. The 1.67% dividend yield is modest but safe owing to the very low 22.08% payout ratio. Moreover, this consumer staples stock has delivered strong gains to shareholders.

The total return of George Weston in 3.01 years is 55.52%, a compound annual growth rate of 15.8%. The company’s main selling points and competitive advantages are its market-leading businesses.

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