



1 Solid TSX Stock I'd Sink Every Cent I Can Into

Description

Stock picking isn't easy when the [market is in turmoil](#) and the economy looks bleak. However, there is one stock I would bet on regardless of economic conditions: **Loblaw Companies** ([TSX: L](#)). Here's why.

Economic outlook

The Canadian economy is in rough shape. Inflation is off its peak but is still historically high. Meanwhile, companies have started laying off workers and pulling back investments. Lack of employment with rising prices is what economists would call stagflation.

Food prices have been a key driver of inflation this year. However, the entire burden of higher food costs has been passed to consumers. Grocery store chains across the country have preserved their profit margins. Since consumers can't cut back on essentials such as medicines and bread, the ongoing situation has created a windfall for these companies.

Loblaws has been at the forefront of this trend. The company controls roughly 27% of Canada's essential retail market share. The company's subsidiary Shoppers Drug Market has 30% of the pharmacy market based by revenue.

Put simply, this company has pricing power and is recession- and inflation-resistant.

Recent performance

Loblaw delivered an impressive third-quarter earnings report that affirms continued growth and positive financial and operating performance.

The stock rallying by more than 10% year to date while the TSX index is down by about 5%, affirms strengthened investor confidence about Loblaw's long-term prospects. L stock touching an all-time high of \$120 a share during one of the worst inflations indicates its core business is immune to such

pressures.

Loblaw posted an 8.3% increase in sales in the third quarter to \$17.4 billion, driven by a 7.7% increase in retail drug sales. Retail food sales were up 6.9% as online sales increased by 3%. In addition, the retailer generated a 14.8% increase in operating income to \$991 million as diluted earnings per share increased 33.1% to \$1.69.

Valuation

Robust sales growth has allowed Loblaw to generate significant free cash flow, offering an attractive 1.49% dividend yield. Nevertheless, the stock is trading at a discount with a [price-to-earnings multiple](#) of 14. That means there's plenty of room for growth.

That said, Loblaw is an attractive long-term play for investors seeking to generate passive income amid the high inflation environment. While demand for food and pharmaceutical products will always be high regardless of the economic situation, the company should continue to post impressive financial results.

Bottom line

When you can't beat 'em, join 'em. Canada's inflation rate is still relatively high and food prices are a key driver. However, the grocery stores selling food haven't shared the burden. They've passed all of the rising costs onto consumers, which is why their profit margins are intact. Canadian investors should invest in this market leader to benefit from some of that windfall.

CATEGORY

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