Loblaw Stock – Can it Keep Outperforming in 2023?

Description

It's been a nasty year for the broader stock market, but top grocery plays like **Loblaw** (TSX:L) have enjoyed some of the best gains in years. Indeed, the one-two punch of high inflation and fading economic growth prospects have helped power Loblaw's profits to impressive heights. Undoubtedly, the whole grocery space has benefited from higher foot traffic. Better deals at Loblaw-owned stores and committing to price freezes amid rampant food price inflation have helped the firm gain ground in a competitive environment.

Though Loblaw's a top performer amid increasingly stagflationary conditions, Loblaw can thank more than the economy. The management team has done a great job of making it through various obstacles. Its purchasing and pricing power has grown to be respectable. Going into the New Year, there are plenty of reasons to think more of the same could be in store for Loblaw. As a recession hits, inflation could take a backseat, and Loblaw may be ready to go another leg higher.

Loblaw stock: Don't wait for a steep plunge — it may not happen!

Now, Loblaw stock's rally has been quite stretched over the past year, led higher by solid quarters. The stock is up more than 20% year to date, while the S&P 500 is back in bear market mode (down around 20% from its December 2021 peak). Despite the solid yearly gains, the rally has slowed pace. There's some concern that this slow pace could precede a pullback.

Arguably, I think the pullback (the stock corrected nearly 15% in the fall) has already come and gone. As the Canadian grocer flirts with new highs, I still think the stock is a great buy. At 19.5 times trailing price-to-earnings, Loblaw stock is modestly valued. Further, the 1.31%-yielding dividend is bound to grow at an above-average rate from here, as the firm continues to give budget-constrained consumers a better value proposition.

Loblaw claims to have saved its shoppers $500 million by not taking advantage of "bogus price hikes." Indeed, inflation has made it harder to tell what's cheap and what's expensive. With a strong private label line-up and many loyal customers, 2023 is shaping up to be another sound year for one of the most resilient firms on the TSX Index.

Loblaw stock: Looks like a winner that could keep winning

Simply put, Loblaw is firing on all cylinders and I see few reasons why Canadians should look to take profits off the table here. Though Loblaw stock may not be in for another 2021-esque pop (shares surged more than 50%), I do view the name as a great defensive stock with the potential to deliver solid capital gains.

Now, I'm not a fan of chasing hot stocks while they're at or around their all-time highs. However, Loblaw has the earnings and fundamentals to back its rally up. Arguably, the stock is still cheap, as a recession moves closer with every day.

Santa Claus may not be coming to town this year. But at the very least, Loblaw stock remains a gift that TFSA investors may wish to consider with their New Year's contribution (it's been raised by $6,500 for 2023 due to inflation).

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