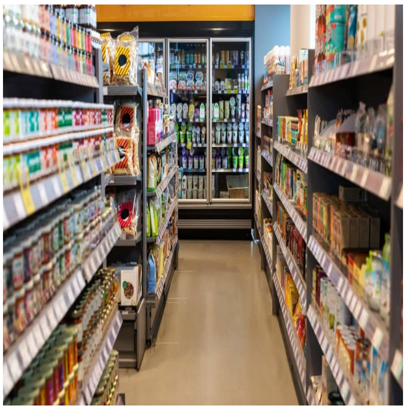

Why Loblaw Stock Looks Like a Bargain Right Now

Description

Loblaw Companies (TSX:L) is one of the leading Canadian grocery store chains. The company owns various top grocery banners such as Loblaws, No Frills, Real Canadian Superstore, and the Shoppers Drug Mart chain. Accordingly, Loblaw stock has become a defensive option that investors have gravitated toward of late.

This certainly makes sense. During the pandemic, many companies saw their revenues and earnings take a hit. However, Loblaw is one company that actually posted revenue and earnings surges last year, as consumers stocked up on everything from canned goods to toilet paper. These results have been somewhat tainted due to pandemic-related expense increases. However, given the defensive nature of Loblaw's business model, this is a company that still looks attractive to investors who are worried about volatility on the horizon.

Here's why investors may want to consider Loblaw stock a bargain at these levels.

Loblaw stock looks cheap on business model shift

One of the key reasons Loblaw stock has become an intriguing option for many investors is the company's newfound growth thesis. Loblaw, like its retail peers, has been shifting toward an omni-channel business model in recent years. A growing e-commerce presence has accelerated as a result of the pandemic.

The company has been moving toward e-commerce in both direct and indirect channels. The company's in-store pickup model has improved. And the company has been focusing on making the strategic shifts necessary to make this retailer relevant for the decades to come.

Amid an executive shuffle, Galen Weston moved to the president, with Sarah Davis leading much of the portfolio shuffle for Loblaw. Some of the moves the company has made recently include shutting down the company's meal-kit business. Loblaw did this to focus on its investment funds on growing its order picking teams. This will help ensure e-commerce growth remains a priority for Loblaw.

After all, Loblaw did report massive growth in e-commerce this past quarter. Sales hit $2 billion in this segment once again, though slightly down from the peak last year. Accordingly, investors appear to be giving Loblaw the benefit of the doubt right now. Indeed, Loblaw stock recently hit a new all-time high on expectations e-commerce growth will be sustained over the long term.

However, even after an impressive run in Loblaw stock, this is still an equity trading at 22 times earnings. Compared to the market, that's cheap. For a defensive gem, I think this is a stock that could have a lot more room to run from here.

Bottom line

Loblaw stock is among the biggest and best retail plays in Canada. The company's recent growth seen across its segments is impressive. In particular, 9.6% year-over-year sales growth for the company's drugstore segment is something investors seem to like.

Loblaw pays a meaningful dividend yield of 1.7%, which has been reduced substantially as a result of this stock's rapid increase in value of late. However, I expect more dividend increases on the horizon.

For long-term investors seeking a defensive gem with excellent value, Loblaw stock is an excellent choice.

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Date
2025/08/15
Date Created
2021/08/12
Author
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