Five Investments to Own in 2018: #5 Lowe’s

Welcome to our fifth and final installment of *Five Investments to Own in 2018*! We hope you’ve enjoyed this series as much as we’ve enjoyed researching and writing it.

A quick recap …

We started our series with a broad market pick that should take advantage of the market’s continuing climb in 2018. We followed that with a precious metal ETF that will provide some much-needed risk management.

Then, we gave you an energy play that will take advantage of the positive outlook for oil and energy. And we followed that with an online retailer with massive market and brand power.

Now, to our fifth and final selection for 2018 …

Lowe’s: Dividends and Growth

We often look at stocks in two camps …

The first camp includes investors looking for growth. They’re happiest when their stocks are going up. And they’re willing to forego dividends – and other factors – in pursuit of share appreciation.

Then there is the opposite camp. They’re looking for dividends (income). And they’re willing to put up with little to moderate growth to secure that income.

But sometimes you get the best of both worlds. And Lowe’s (LOW) is just that kind of stock. It’s not only an impressive growth play: It also boasts an outstanding dividend record.

First, the dividend side of the story.

For the last 55 years Lowe’s has paid and increased its quarterly dividend. They haven’t missed a beat and I’d be hard pressed to find a similar record. No doubt about it, that’s impressive.

The streak began in 1961, right after Lowe’s went public. And if you think about all the economic, political, and market changes that the company has endured over that half-century, their dividend record shines even brighter.

But it’s not just their dividend track record that is remarkable …

The company is projected to payout its $0.41 quarterly dividend over the next fiscal year. That puts the annual dividend at $1.64 and a dividend yield going forward of about 1.76%. That’s not too shabby and compares favorably with the 1.89% dividend yield for the S&P 500.

Still, I think there could be more dividend growth ahead. After all, the company is expected to earn about $5.22 per share over the next fiscal year. That puts the company’s dividend payout ratio – or the amount of earnings it pays out in dividends – at 31%. I think they could bump that up and still be shy of the 48% that their competitive behemoth – Home Depot – has to shell out.

In addition to a dividend play, Lowe’s is also a growth opportunity. In fact, when I went over the last quarterly numbers, I was pleasantly surprised.

For the fiscal third quarter that ended November 3rd, sales were up 6.5% to $16.8 billion compared to the year-ago quarter. That a solid number, no doubt about it. But it gets better: Compared to adjusted earnings of $0.88 for the year-ago quarter, Lowe’s drove the bottom-line 19% higher to $1.05 per share.

When profits increase at a great rate than sales, it’s a clear sign of operating power and efficiency. And it’s a big driver of growth down the road.

Drill a bit deeper into the numbers and you discover that during the third quarter the company increased comparable sales – a key metric in the retail business – 5.1%. When most retailers are happy with increases of a few basis points, these results are outstanding.

Estimates are calling for sales to increase 5.5% this year and 3.9% next year. But with the company firing on all cylinders – and the economy continuing to improve – I think these could be on the low side.

Technically, a picture is worth a thousand words …

As you can see, LOW is in a long-term uptrend. Certainly, it’s had its ups and downs along the way. But eventually it always resumed its uptrend, a strong sign indeed.

Plus, LOW broke above $86 in May. That was a key resistance level and should now clear the way for even higher prices.

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Happy Investing,

Wayne