

INVESTOR'S EDGE

Lowe's or Home Depot for portfolio?

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"A man's home is his hassle." — P. J. Laux

As my wife and young son know all too well, I am no handyman. I even have a tough time knowing the difference between a hammer and a wrench! Instead, I really want to focus my time on making money in stocks.

However, my lack of basic handyman skills probably explains why, after almost 10 years of writing "Investor's Edge," I have never highlighted two very well-known stocks of local interest: Home Depot and Lowe's. That's unfortunate, because both stocks have been barn-burners, pun intended. So it's time for a head-to-head comparison between the two home improvement giants with a recommendation of which is the better stock to own over the next few years.

First, it is important to note that the two companies are, as Oppenheimer Retail analyst Brian Nagel has said, "about 90 percent identical." Home Depot (symbol: HD), based in Atlanta, is the much larger company with 2,250 stores in the U.S. and Canada, and about 45 percent more revenues than Lowe's (symbol: LOW), which is based in Mooresville, N.C. Home Depot has a market capitalization



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have risen significantly faster in urban areas versus the suburbs, Home Depot has had the edge and, thus, generated faster earnings growth and stronger stock price appreciation.

However, over the next several years, Home Depot may have limited new store growth in the U.S., while Lowe's will likely expand aggressively in underpenetrated city markets, which may drive superior earnings gains versus Home Depot.

Home Depot's earnings have risen from \$2.43 in 2011 to \$6.33 in 2016, a powerful 20 percent per annum earnings growth. Lowe's has been no slouch either, generating 18 percent EPS growth over the last five years, with earnings growing from \$1.69 in 2011 to \$3.91 last year. Both Home Depot and Lowe's have been outstanding dividend growers, raising their respective dividends by an impressive 20 percent per year in the last five years.

With slightly better earnings growth, Home Depot has also been the slightly better stock. Home Depot has outperformed Lowe's over the last 1, 3, and 5-year periods.

It should be noted, however, that both stocks have been powerful winners, with each company walloping the S&P 500 Index by over 10 percent per year over the last five years.

One of the key differences between the two home improvement retailers is in the store layout. As anyone knows who has gone in the two stores, Home Depot features long, narrow aisles stacked with merchandise. The stores have an industrial feel and are generally barren in terms of decoration or presentation. Lowe's, on the other hand, focuses more on its product displays like patio furniture sets, gardening supplies and holiday-themed items. Many hardware/home improvement novices find Lowe's to be a friendlier, easier-to-navigate environment. Traditionally, Home Depot has catered to contractors and professionals while Lowe's has been known for do-it-yourselfers.

The bottom line is that both Home Depot and Lowe's are fabulous businesses with managements that execute superbly. However, in my experience, when comparing two businesses with similar attributes, I usually want to own the smaller company, which is Lowe's.

Lowe's is gaining traction with contractors by partnering with brands professionals prefer and launching an e-commerce platform. The company is also growing internationally with the recent purchase of the popular Canadian hardware chain Rona. As mentioned, Lowe's is one-third the size of Home Depot in terms of market capitalization, so it has tremendous opportunities to close that gap.

Lowe's motto is "Never Stop Improving." Buying Lowe's stock, which is almost 10 percent off its 52-week high, will keep your portfolio returns improving for years to come.

Jim Burns is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment.



Home Depot has outperformed Lowe's over the last 1-, 3- and 5-year periods. AP file