Should You Buy These 3 Government-Protected Stocks?

Description

On the surface, Canada appears to have a free market economy. The federal government's Competition Bureau has taken on some high profile cases over the years, including recently forcing Canadian Realtors to give MLS access to lower cost competitors.

The feds have also been very vocal in their encouragement of foreign telecom providers coming in and providing some competition to Canadian incumbents.

Don't let these examples fool you. The Canadian government protects many Canadian industries. Provincial and municipal governments are also in on the action, albeit in a smaller role. This affects more Canadian businesses than you'd think.

The federal government essentially has three tools it can use to limit competition. The most common is setting high tariffs on the import of competing products. It can also place quotas and price controls on certain industries, ensuring demand and profitability for producers. These two tools are used extensively to protect Canadian farmers, especially in industries such as milk and raising chickens. Finally, the feds place limitations on foreign ownership of these assets, effectively killing foreign interest in certain sectors.

Here are three companies that benefit directly from government involvement in their industries. This gives them a distinct competitive advantage.

Saputo

Saputo (TSX: SAP) is Canada's largest producer of milk, eggs, and butter, thanks to a series of acquisitions that consolidated this formerly fragmented industry.

Saputo is essentially a middleman with a very simple business. It buys milk from producers — who are guaranteed a certain price thanks to the quota system — processes it, and sells it to stores. Because the price it pays for milk is locked in, the company enjoys predictable margins and a steady supply of milk. It also protects the company from being undercut from its surviving competitors.

Saputo is positioning itself to grow outside of Canada. Besides its existing U.S. exposure, the company also just acquired an Australian dairy producer. This positions the company nicely to expand into China and other Asian markets that consume significantly less milk than North Americans.

The company also boasts a terrific dividend growth record. Its dividend is up almost 300% over the past decade, and the dividend payout only takes up about 60% of Saputo's growing earnings. There's plenty of room for the dividend to continue growing in the future.

Rogers Sugar

Rogers Sugar (TSX: RSI) is another protected Canadian business. The government won't allow foreign sugar to be imported into Canada without levying huge tariffs, which protects Canadian sugar growers.

This puts Rogers in a similar position as Saputo. It buys sugar from producers, processes it into grades, and enjoys a very steady margin doing so. If sugar prices go up, it can just raise prices charged to retailers. Rogers only has one real competitor, and each have settled into their share of the market.

This leaves a business that is very steady, almost like a bond. The company experienced some weakness earlier in 2014 when it reported disappointing results from its sugar export business, which is just a small portion of revenue. Higher natural gas prices hurt Rogers as well.

Dividend investors will like Rogers' dividend, which is currently more than 7%. It's not a fast-growing dividend, but investors think it's pretty sweet.

CP Rail

When **Canadian Pacific Rail** (TSX: CP)(NYSE: CP) first built a track across Canada back in the late 1800s, it got a huge perk from the government for linking the country. The deal was CP wouldn't have to pay any taxes on profits from this main line, a perk the company has enjoyed for more than a century.

This event has shaped the company's tax policy ever since. CP actively takes steps to minimize the tax it pays, and has even challenged the government in court over taxes it feels were wrongly levied. This is a big advantage over the company's main rival, **Canadian National Rail**.

Foolish bottom line

Over the summer, shares in Canada's largest telecom companies sold off as the government all but rolled out the welcome mat for a foreign wireless provider to enter the country. When the government is against a company, chances are the share price will go down. If investors can find opportunities where the government is giving a company an advantage, it's a situation that shouldn't be ignored.

CATEGORY

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TICKERS GLOBAL

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3. TSX:RSI (Rogers Sugar Inc.)
4. TSX:SAP (Saputo Inc.)

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