3 Defensive Dividend Stocks for Every Portfolio

Description

With growing fears of a market correction looming, now is the time for investors to start considering defensive stocks. Typically, these are companies that continue to perform well regardless of the state of the overall market and have relatively stable earnings regardless of business cycle phases.

These characteristics also mean they are able to sustain dividend payments even in difficult operating environments, making them attractive core holdings in income-focused portfolios. Defensive stocks are most often found in industries that have relatively inelastic demand for their products, including utilities, energy, consumer staples, and telecommunications.

I have chosen to take a closer look at three companies that may not fit the traditional definition of "defensive", but possess many characteristics that make them an important addition to any income-focused, defensive share portfolio.

Canada's largest telecom offers a tasty yield

Canada's largest telecommunications company, **BCE** (TSX: BCE)(NYSE: BCE), is a key addition to any defensive, income-focused stock portfolio.

Not only does the company possess a wide economic moat by virtue of its dominant market share, along with high barriers to entry, but it also continues to pay a quarterly dividend with a very tasty yield of over 5%. With a payout ratio of 86% and consistently growing cash flow, which for 2013 grew a healthy 17% over 2012, this dividend yield is clearly sustainable.

This oil sands giant and integrated energy major offers a strong dividend

There has been considerable volatility in the energy sector of late and specifically in the patch, with a range of macro-economic and geopolitical drivers causing the price of crude to oscillate wildly. However, one undeniable fact is that the global demand for energy will continue to grow as emerging economies in Latin America and Asia continue to expand and global population growth explodes.

This makes **Suncor** (TSX: SU)(NYSE: SU) a perfect pick. Although its dividend yield of 2% is not spectacular, it has grown at a compound annual growth rate of 13% since its inception in 1992, which is a spectacular rate of growth. Even more compelling for investors is that this dividend is clearly sustainable with a very conservative payout ratio of 29%.

In addition, by virtue of its integrated downstream and upstream operations, Suncor is able to better manage the price differentials between Canadian crude blends and West Texas Intermediate than many of its peers. Its oil production is also geographically diversified, giving it access to a range of global refining markets and reducing its dependence on any single jurisdiction.

These things allow it to smooth out revenue and cash flow while creating an almost guaranteed source of growing revenue as long-term global energy demand explodes. When coupled with an extensive multilayered economic moat, it is more than likely that Suncor's dividend will continue to grow, which underscores the defensive attributes of the company.

Growing global food demand makes this potash miner an ideal pick

Normally I wouldn't describe a mining stock as being a defensive choice. However, with growing food demand driving higher global agricultural production and fertilizer demand, **PotashCorp** (TSX: POT)(NYSE: POT) makes an interesting contrarian pick. All of these factors will drive higher global demand for the company's key product, potash, because it is a major ingredient in the majority of commercial fertilizers.

PotashCorp pays a quarterly dividend with a juicy yield of 4%, and a very sustainable payout ratio of 74%. This highlights that there is some fat if the company's margins do fall due to a sustained global economic downturn.

Even in such a scenario it is unlikely that demand for potash will fall, with a rising global population creating greater food demand and making agriculture more intensive in order to make it more cost-efficient. These things will drive higher demand for fertilizer products.

CATEGORY

1. Investing

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