Add Empire Company Ltd. as a Defensive Hedge to Your Portfolio

Description

There are growing fears that a stock market correction could very well be on the way as a range of indicators are signalling that North American stock markets are overvalued. A Federal Reserve rate rise, the worst commodities rout since the global financial crisis, growing fears of an economic hard landing in China, and over-borrowing among companies continue to contribute to these concerns.

It is at times like these that investors should hedge their portfolios against any impending financial storm by increasing their exposure to non-cyclical or defensive stocks. Investors can do this by investing in companies that produce or sell consumer staples. These are goods that people are unable or unwilling to cut out of their budgets regardless of their financial situation.

One opportunity that stands out for Canadian investors is **Empire Company Ltd.** (TSX:EMP.A).

Now what?

Empire Company operates 1,500 retail stores and 350 retail fuel locations across Canada. It offers investors the opportunity to add a defensive hedge against volatility and uncertainty to their portfolios.

The non-cyclical nature of Empire Company's business can be seen in its adjusted EBITDA, which has grown for the last six straight years by just over 5% for each of those years. Same-stores sales growth through its Sobeys retail food chain also remains strong, growing by 1.4% year over year for fiscal year 2015. These are impressive achievements in the current economic climate.

Empire Company has been able to do this through a series of initiatives aimed at expanding its business while boosting efficiencies.

These include the 2013 acquisition of Canada Safeway, which added 213 full-service grocery stores, 200 in-store pharmacies, 62 co-located fuel stations, 10 liquor stores, and a range of distribution and manufacturing facilities to its portfolio. This boosted its national footprint and has been a contributor to its growth since the acquisition was closed in early November 2013.

I expect Empire Company to continue on this growth trajectory. It recently entered into an agreement to acquire Co-op Atlantic's food and fuel business for almost $25 million. The closure of this acquisition added five full-service grocery stores and fuel stations to its already impressive nationwide asset base.

Meanwhile, this growth will be supported by cost cutting and will generate additional synergies through the ongoing integration of Safeway's operations into those of Empire Company. Empire Company has also focused on reducing debt as another means of reducing costs through the sale of a range of manufacturing and real estate assets.

So what?

What makes Empire Company a compelling addition to any stock portfolio is the non-cyclical or defensive nature of its business. It allows investors to hedge against economic uncertainty and offers growth prospects. Investors also shouldn't forget about its dividend that currently yields a modest 1.3%, but has an impressive compound annual growth rate of almost 13%.

In fact, the defensive nature of Empire Company's business combined with its solid ongoing growth has allowed it to hike its dividend every year for the last 20 straight years. This solid rate of growth in conjunction with the other factors discussed should continue making Empire Company an income-generating defensive hedge against growing economic uncertainty.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMP.A (Empire Company Limited)

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