Top Consumer Staples Stocks to Curb Portfolio Volatility

Description

The TSX composite index has been almost flat over the last two months, fluctuating briefly on improving commodity prices, certainty over the U.S. election results, and U.S. monetary policy. Volatility in the market will often attract investors to health care, utilities, and consumer staples stocks. Historically, consumer staples stocks have exhibited some of the lowest volatility in the market, which is true for **Loblaw Companies Limited** (TSX:L) and **Alimentation Couche Tard Inc.** (TSX:ATD.B).

However, in the last two months, Loblaw shares have outpaced the market's decline, and Couche Tard shares have slightly underperformed the market. This may present a unique buying opportunity for investors.

Loblaw Companies Limited

Consumer staples stocks are known for their strong brands that are supported by established customer bases and staple products or services. Loblaw has over 2,400 independent and corporate-owned grocery stores and pharmacies across Canada servicing over 17 million customers every week. These include some of the most recognizable brands, such as Loblaws, No Frills, and Real Canadian Superstore, among others, as well as the Shoppers Drug Mart outlets and Joe Fresh apparel stores.

The company has been significantly improving its market share through innovation and acquisitions. One of its most recent developments was the expansion of its e-commerce business.

The company's new click-and-collect program allows customers to shop online and pick up their order at a participating store. This program has been popular for years in the U.K. but is just kicking off in the U.S. and Canada. It charges a nominal fee for this service and offers participants premium pickup locations at the store. If this program is successful, the next frontier will likely be a grocery delivery service.

One of the company's major acquisitions this year included the purchase of QHR Corporation. QHR is a Canadian healthcare technology company and a leader in the electronic medical records (EMR) market, providing software for healthcare providers and their patients.

As of Q2 2016, the company saw modest 2% growth in revenues year over year, but 7.8% earnings growth attributed to $83 million in net synergies and cost reductions. The company announced plans to build several dozen stores, investing about $1 billion in the expansion, while **Choice Properties REIT**, a real estate investment trust spun out by the parent company in 2013, will contribute $300 million.

Alimentation Couche Tard Inc.

Couche Tard's network is comprised of 7,863 convenience stores throughout North America and 2,708 stores in Europe. It continues to grow organically with 33 stores under construction to open in upcoming quarters; however, it has become an expert at integrating acquisitions into the company.

Its latest announcement was the US$4.4-billion deal to buy Texas-based **CST Brands Inc**. It will acquire a network of more than 2,000 stores in the U.S. and eastern Canada, including an equity stake in large fuel retailer CrossAmerica Partners LP. This acquisition should provide some significant synergies between the two companies operations. It's estimated the deal will generate pretax cost savings of $150-200 million within two to three years of its completion.

The company also completed the purchase of Ireland's biggest convenience and fuel retailer, bought A/S Dansk Shell's downstream retail business in Denmark, and signed an agreement with **Imperial Oil** to acquire 279 of its Esso-branded fuel and convenience sites in Canada.

The company continues to improve its financials, which include an US$85 million cost-reduction plan. In Q2 2016 it reported a 7.1% improvement in gross profit and an 8.9% growth in net earnings. Strong merchandise growth in Europe and fuel station sales in the U.S. and Canada were significant factors; however, the price of fuel and the high U.S. dollar continue to impact the company's earnings.

Conclusion

If you ignore its latest purchase of CST Brands, 67% of Couche Tard's revenues are generated from its U.S. operations. Investors that are bullish on the U.S. economy's growth and increased spending by the U.S. consumer should consider this stock for their buy list.

Loblaw's most recent announcement was that W. Galen Weston is stepping down as executive chairmen of **George Weston Limited**, the owner of Loblaw, and is handing the reigns over to his son, Galen G. Weston. This is positive news, especially for those investors that have followed the company and witnessed Galen's relentless efforts to grow its brands.

The stock jumped on the news, but is still down about 7% from its highs in early August, which could present a buying opportunity.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

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