The Best Defensive Stock to own as Rates Increase

Description

After watching interest rates increase by yet another quarter point, investors seeking value in shares of Canadian companies throughout 2018 may have had a challenging time. Although the economy is performing above expectations, the reality remains that higher interest rates will have a negative effect on the bottom lines of businesses and the amount of disposable income available to everyday Canadians.

With so many moving parts to the equation, there is a strong case for investors to exit shares of **Alimentation Couche-Tard Inc.** (TSX:ATD.B) and purchase shares in companies such as **Dollarama Inc.** (TSX:DOL), as they are undercutting the higher prices of convenience stores. As oil and interest rates have both been on the rise for quite some time, many consumers are only now starting to feel the pinch, as day-to-day costs have been steadily increasing amid a better economic outlook. As this brings about the high probability that consumers will need to cut somewhere, investors need to look into the most defensive of names to figure out where value will continually be found in the years to come.

At a price of almost $29, shares of **North West Company Inc.** (TSX:NWC) currently offer investors a dividend yield of almost 4.5%, as the most defensive of all grocery stores in the country continues to deliver for investors. Although the most recent results fell short of expectations due to the hurricanes that impacted the United States, investors have very little to lose sleep over, as the beta of this stock remains a minuscule 0.09.

In the business of serving remote regions of Canada and parts of Alaska, the general store/grocery store model employed by North West Company has very little competition to speak of, but yet it has a very solid and sustainable client base. Typically, people in northern communities do not move around very much. With a third quarter that saw earnings per share come in at $0.42 (down from $0.57 from a year earlier, shareholders need not worry, as the cash flow from operations (CFO) has totaled no less than $93 million for the first three quarters of the year. For the previous fiscal year, CFO was $126 million.

Dividends, which make up a major part of the return for investors, accounted for 87% of earnings (and 50% of CFO) throughout the first three quarters of this fiscal year, and they were not far off in the previous fiscal year. For the year ending January 31, 2017, dividends represented 78% of net earnings and 48% of CFO. For investors looking behind the curtain, it becomes clear that this very mature company has a lot of potential to income investors willing to accept a very low amount of risk and a relatively low amount of reward.

In spite of a low risk/reward profile, investors still have a lot to look forward to, as the fluctuations in the share price on an annual basis remain high enough to offer a +15% rate of return if bought at the right time.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:NWC (The North West Company Inc.)

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