2 Defensive Stocks for the More Cautious Investor

Description

Metro Inc. (TSX:MRU) second quarter results are out and they're pretty underwhelming.

And with the stock down almost 3% the morning of the release, the market seems to agree.

But what if underwhelming results are countered by a consistent, low risk, defensive stock that holds up well in difficult times? Would you say that it's a good trade-off?

So while second quarter results were unimpressive, with same-store sales inching 1% higher and adjusted net earnings per share falling by 2.1% to $0.47 versus expectations of $0.48, management feels good about the business.

The quarterly dividend was increased by 10.8% to $0.18 per share, thus reflecting management's confidence going forward.

And the first half of fiscal 2018 looks better, with a 7.5% increase in adjusted net earnings per share.

The company's acquisition of Jean Coutu was approved by the Competition Bureau, which should give Metro a big boost to earnings and cash flow.

Diversifying into the pharmacy retail business is a very positive step for Metro, as it will deliver cost synergies, cross-selling synergies, and increased efficiencies. All this will likely increase the stock's valuation, especially if investors become more risk-averse moving forward.

Metro has shown consistency and stability over the last few years, as the company has consistently met or beat expectations in the last few quarters.

Further, the company has a long track record of dividend increases, which also bodes well for investors. The annual dividend was increased by 16% to $0.65 for a dividend yield of 1.65% last year. With the recently announced 10.8% increase, we have a dividend yield approaching 2%.

These are things that should lead to the stock's outperformance despite the expected rise in operating costs due to minimum wage increases going forward.

Empire Company Limited (TSX:EMP.A) is a a transformation story, but in the same defensive space.

The stock has skyrocketed 55% since its lows of January 2017, as we are seeing a new company take shape.

What we're seeing in the company is a renewed focus on efficiency, cost reduction, and delivering a better offering that's designed to improve customer satisfaction.

And with CEO Michael Medline at the helm, who was responsible for improving **Canadian Tire Corporation's** (TSX:CTC.A) business, we have good reason to be optimistic. Medline has a good track record and has delivered top-notch results throughout his career.

The company implemented Project Sunrise, a three-year plan designed to simplify the organization and achieve annualized cost savings of approximately $500 million by fiscal 2020 with a one-time $200 million charge in the first half of fiscal 2018, thereby reflecting severance, relocation, consulting, and system developments.

The latest quarter, the third quarter of fiscal 2018, posted an almost doubling of EPS amid improved marketing and pricing strategies, as well as benefits related to the Sunrise Project.

In summary, for investors seeking more stable and defensive stocks, choose between these two retailers: a steady-as-she-goes story or a transformation story.

CATEGORY

1. Dividend Stocks
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2. TSX:EMP.A (Empire Company Limited)
3. TSX:MRU (Metro Inc.)

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