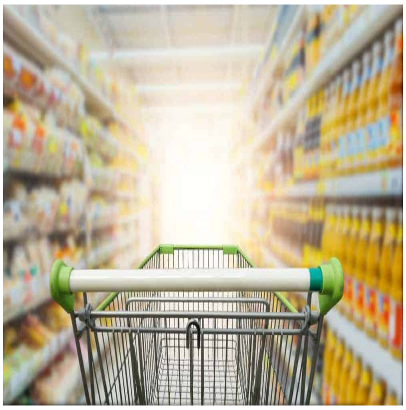

Loblaw Companies Ltd. (TSX:L) or Empire Company Limited (TSX:EMP.A): Which Should You Add to Your TFSA Dividend Portfolio?

Description

If you're like me, you might be beginning to see dark clouds on the investment or economic horizon. Since I am primarily a conservative dividend investor, I want to start moving my TFSA portfolio to companies that are relatively stable and have growing dividends. This means beginning to position your portfolio towards recession-proof sectors that will have relatively stable earnings through challenging times. Traditionally, companies that sell staples like food have fit into this category. After all, we have to eat, right?

I know what some out you are thinking: **Amazon.com, Inc.** (NASDAQ:AMZN) is entering the sector, so every company selling food is going to get destroyed. Well, nobody knows what the future holds, but just in case, I want to look at two Canadian grocery store companies to see which I might add to my dividend portfolio.

Loblaw Companies Ltd. (TSX:L)

Loblaw, a Canadian-based grocer, operates across most of Canada. The business is divided into three different segments: Retail, Financial Services, and **Choice Properties**. Choice Properties is the real estate investment trust that operates the real estate holdings of Loblaw.

As of Q1 2018, Loblaw's results were relatively flat. Revenue decreased slightly by 0.4%, although management stated that the decrease in revenue was largely due to the minimum wage increase put into place in provinces such as Ontario. Growing segments, such as financial services, positively impacted revenues, growing 8% year over year.

Adjusted EBITDA increased 0.9%, driven primarily by a 35% increase in Financial Services. Retail over the same period decreased 2.3%, and Choice Properties EBITDA decreased almost 20%. Net earnings were up 62% in the first quarter. Free cash flow, while still positive, was down 26% in the first quarter due to a number of capital investments made by Loblaw. Loblaw's dividend was recently increased by 9.3%, resulting in a dividend of 1.6% at the current share price.

Loblaw did not have great first-quarter numbers, but it demonstrates why its business diversification creates stability. When one segment experiences decline, the other, such as financial services in the latest quarter, can help pick up the slack.

Empire Company Limited (TSX:EMP.A)

While Empire has had a difficult past few years, largely due to the Safeway acquisition, it seems that the company is finally beginning to turn around. The company owns a number of brands, such as Sobeys, Safeway, and Freshco. It has a presence in each of Canada's 10 provinces, providing a degree of diversification by geography within Canada.

As is the case with Loblaw, Empire expects negative impacts from the cost of labour due to minimum wage increases in provinces such as Ontario. In Empire's third quarter 2018, overall revenue increased 1.8% and free cash flow increased 3.8%. The increase in free cash flow was largely due to improved operating activities and decreased capital expenditure.

The improved operational performance helps to stabilize and solidify Empire's dividend prospects for the coming years. The current dividend sits at about 1.6%, basically the same as Loblaw's dividend at the current price.

The bottom line

While each of these companies have positive attributes, I would prefer Loblaw for a number of reasons. First, I generally prefer larger companies during difficult times. Another reason would be the Shoppers Drug Mart acquisition. By purchasing Shoppers a few years ago, Loblaw was able to diversify significantly into the medical retail space.

Again, both of these companies would be acceptable to add to your dividend portfolio. In fact, adding a bit of each would not be a bad idea. But if you have to choose, I would suggest Loblaw as your recession-proof TFSA dividend choice.

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