2 Retail Stocks That Could Actually Benefit From a Recession

Description

The more investment headlines you read these days, the more you see the word *recession.* Turbulence in the real estate world plus fears of a full-blown trade war are causing fluctuations in the market that have gotten some commentators spooked.

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Let's take a look at two popular Canadian consumer defensive stocks that may actually benefit from a recession and see whether either of them is a buy.

Canadian Tire Corporation Limited (TSX:CTC.A)

In a recession caused by a burst real estate bubble, don't expect to see families relocate for work. This scenario would see people finding themselves tied to their mortgages, and spending would be focused on servicing debt.

The upshot of this is that while building contractors would find business starting to suffer, any industries connected with home renovations could do well. The reason for this is that, faced with the inability to up sticks and move, homeowners may instead turn to DIY to manage upkeep overheads as well as to try to add value to their houses. As such, stores like Canadian Tire that carry DIY lines should do well.

Value-wise, Canadian Tire is looking moderate on multiples. With a P/E of 16 times earnings, it's in line with the TSX and beats the average for North American multi-line retail. Its PEG is a little high at twice expected growth, though, and it's also trading at over twice its book value.

Canadian Tire's expected annual growth in earnings looks positive at 8.1%. Also, its dividend yield of 2.1% is set to rise to 2.25% next year — a boon for any investor looking for passive income from a consumer defensive. A 12% discount on its future cash flow value provides extra incentive to buy.

Loblaw Companies Ltd. (TSX:L)

When households feel the pinch, people tend to cut back on going out to restaurants and start cooking from home. While cheaper grocery stores are likely to clean up, they don't necessarily make for good stocks. Loblaw is set to clean up, though, and it's one of the best consumer defensive stocks out there.

Looking at the stats, we can see that Loblaw has moderate multiples. Its P/E is very similar to Canadian Tire's at 16.3 times earnings. Again, this is in line with the overall market. Without any expected growth as yet, Loblaw's PEG can't be calculated, although we can see that it is trading at twice book.

A 1.58% dividend rising to 1.77% next year is a nice little sweetener for this stock. Its real draw, though, might be the deep discount of 35%, so if you're looking for a cheap stock that will pad out the consumer defensive section of your portfolio, this one is a strong contender.

The bottom line

Canadian Tire comes out on top in terms of expected growth, while Loblaw is a bargain at $68 a share. If you had been waiting to buy solid consumer defensive stocks, these two might make a good combo.

However, bear in mind that there is likely to be some turbulence ahead, and current projections may be way off what actually materializes. Should a recession level the playing field, you may see investors turn to staple retail stocks like these two, boosting their growth above current expectations.

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