Start Building a Recession-Proof Portfolio With This Dividend Stock

Description

I am quite afraid that a recession is coming at some point in the next few years. Maybe not immediately, but at some point, the economy is most likely going to stumble. With unemployment at multi-year lows and the economy seeming to be running on all cylinders, I know this seems a bit far-fetched. But there do seem to be cracks in the foundation that might prove to be problems in the future.

Many of these problems have been around for so long people have begun to doubt they are actually problems. Take Canadian debt levels for example. Canadians owe a whopping amount of debt. The governments of Canada, provincial and federal, are not much better. All of this debt makes the economy fragile to shocks, which in turn makes it vulnerable to falling into a recession.

If you believe, as I do, that bad times may be approaching, then finding companies for your portfolio that may be more recession-proof might be the wisest idea. Companies that offer products that everyone needs, such as food, may be the way to go. If that company pays a growing dividend as well, it may be worth adding such a company to your portfolio. **Saputo** (TSX:SAP) might fulfill this need in your defensive portfolio.

Saputo is a large processor of cheese and other dairy products. The company sells its products in more than 40 countries worldwide. Many of its products are in our kitchens every day, such as Nielsen's milk and Armstrong cheese. There is no doubt its products are necessary, but does this need necessarily make it a worthwhile investment?

As of its Q1 2019 report, Saputo demonstrated acceptable, although not excellent, financial results. Revenues for the quarter increased 13% year over year, although the increases in revenues were driven primarily by higher sales volumes from completed acquisitions. Net earnings decreased 37.1% over that time frame as well, with some of the decrease being attributed to the negative impact of a fluctuating Canadian dollar.

A bright point for the company is the dividend. Saputo increased its dividend by 3.1% in Q1, resulting in a dividend that is 1.7% at the current share price. And if history is a guide, the dividend will continue to grow in the future. With its payout ratio of approximately 30%, the company should have no problem continuing this policy.

Of course, there are risks to owning the name. Saputo does have a fair amount of debt resulting from acquisitions, such as its purchase of Murray Goulburn Co-operative Co. Limited in Australia and Shepherd Gourmet Dairy Inc. in Ontario. However, much of the debt is spread out over the long term and should help the company expand its international and domestic operations.

The second major risk is the impact of trade negotiations and issues with NAFTA. Time will tell what the impacts will be, if any, on the bottom line of a company involved in the dairy industry. Saputo gets a large portion of its revenues from the United States, so a negative shock from tariffs and trade could potentially be negative for the company.

Saputo is an excellent company with a long history of increasing its dividend. Its products, largely food items, are important staple items that should be needed even in the event of a recession. Furthermore, its international operations may help smooth out any negativity resulting from an economic slowdown in Canada.

At the current share price, Saputo would make a good addition to a conservative dividend investor’s portfolio at this price. With the exception of its debt and the risk from currency fluctuations, the company has performed very well over the years. With shares trading near its 52-week low, it may be a good time to begin to take a position in the company.

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