Can a Big Food and Drinks Name Beat CIBC (TSX:CM) Stock on Defensiveness?

Description

Looking for defensive stocks isn't as easy as it looks. While certain sectors are traditionally considered defensive in nature, the fact is that a lot of the tickers you'll see in your chosen industry simply will not do what you want or expect them to.

Using a simple five-point metric that emphasizes income, value, and dividends, it's possible to comb through all of the stocks on the TSX to see which one can offer the investor somewhere safe to hide.

The five points chosen are: a market cap that tops CA$1 billion, sound financial health, a low P/E ratio, strong past growth of earnings, and the payment of a dividend.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

Of course there had to be a bank on this list – but not one of the ones you may have been thinking about. Canadian Imperial Bank of Commerce (CIBC) is looking like one of the most defensive stocks on the TSX index bar none — let alone of the Big Five.

CIBC's market cap of CA$55 billion is almost enough on its own to reassure investors that their money is in good hands. However, throw in a low P/E ratio of 10.8 times earnings and you've got an even more attractive stock for defensive investors; value investors can look to a discount of 18% of its future cash flow value for conformation.

CIBC's one-year past earnings growth of 14.5% beats the Canadian banking sector's 10% one-year average as well as its own five-year average past earnings growth of 10.3%, and highlights good health.

For dividends, expect a yield of 4.38% at today's price. A low proportion of non-loan assets are held by this banking giant, while an expected annual growth in earnings over the next 1-3 years of 4.2% is pretty positive for a financial stock at the moment.

Lassonde Industries (TSX:LAS.A)

A market cap of CA$2 billion qualifies this drinks producer for the list, though its P/E of 17.9 times earnings is lukewarm. A one-year past earnings growth of 24.6% outstrips its five-year average past earnings growth of 16.1%. A dividend yield of 1.41% is passable, though a debt level of 55.6% of net worth is a little high.

But is this stock really one to hold for long-term income? An annual growth in earnings of 7.2% over the next 1-3 years is on the cards, which is at least positive, even if it won't this ticker on the radar of growth investors.

A return on equity of 14% last year shows middling to good use of shareholders' funds.

However, it pays to check other signifiers of value: Lassonde Industries is overvalued by almost 5.5 times its future cash flow value at the moment, bursting that illusion of fair value suggested by its P/E ratio. This casts its dividend yield in a rather different light, and doesn't pair well with its so-so ROE.

The bottom line

Using more than one indicator of value shows that the P/E ratio cannot be relied upon alone. Meanwhile, using the ROE to query stock quality throws an interesting light on otherwise impeccable statistics.

Looking at future growth analyses further contrasts the above stocks against their past performance. All told, the superior defensive the superior defensive stock here clearly has to be the banker.

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TICKERS GLOBAL

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2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:LAS.A (Lassonde Industries Inc.)

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