



## 1 of These Defensive Stocks May Be Getting Stale

### Description

The market has served up healthy portions of humble pie throughout October. I was horrified when it looked like **Loblaw** ([TSX:L](#)) had fallen 20% in one day, according to several financial websites (that shall remain nameless).

That ticker information turned out to be false, a glitch in the system, but it forced me to take a hard look at this stock, as I hold a small position in Loblaw as well as competitor **Metro**. Is now the time to add to these dependable stocks with highly cyclical but predictable revenues? It's late in the economic cycle, so adding defensive stocks to the portfolio could protect against the next recession.

I'm not planning on adding Loblaw shares. Here's why.

### Diversification blues

High-wealth companies like Loblaw wrestle with sticking to what made them rich; they diversify the heck out of the business. Loblaw has had numerous irons in the fire, from credit cards and banking, real estate investing, home and auto insurance, Shoppers Drug Mart, and then, of course, its grocery chains under various names. Whereas companies like **Berkshire Hathaway** have done a remarkable job of diversifying business, it's the sort of modus operandi not easily duplicated in Canada, where the addressable market pales in comparison.

### Pessimistic sentiment

First there was the **Amazon** effect that injected a competition scare into Canadian food grocers. Then there was the Loblaw bread price-fixing scandal that gnawed at customer loyalty, followed by the margins hit with the increase in Ontario's minimum wage. I have to hand it to Fool Contributor Joey Frenette, who [forecasted](#) that Loblaw shares would soon be around the \$50 range. I'm not bitter about being down on this investment.

### A perplexing move

Last week, Loblaw announced more details on the sale of its real estate assets to parent company **George Weston Ltd**

, effectively going from owning a portion of the 757 properties to renting (perhaps?) from **Choice Properties REIT**. Management has said the move would make Loblaw a “pure-play Canadian food and drug retailer.” Choice Properties was created around 2013 with \$7 billion in real estate assets, but the total assets changing hands is now considerably less. Something doesn’t seem to add up.

### Lame dividend

Owning Loblaw stock has never really been about dividend income, as the yield is so modest. Competitor Metro has increased its dividend payment to shareholders by 11% in each of the last five years, and Loblaw has roughly kept up with that pace. Instead of more generous dividends, Loblaw has put more cash towards buying shares back, which is a decent strategy if the company truly believes the share price is undervalued. Buying back undervalued shares could be the silver lining in this story line.

### Take-home message

Loblaw as a business is not going anywhere, and the holiday season is precisely the quarter when Loblaw rakes in the highest revenues for the year. Although certain aspects of the business go off like clockwork, I am now more convinced that there are better defensive stocks out there. [Metro](#) has less business bits to contend with, and this may explain why it has outclassed its competitors and is the better one to hold.

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