2 Defensive Stocks for This Threatening Environment

Description

The appeal of defensive stocks is that they provide investors with income and capital appreciation regardless of where the economy or interest rates are heading.

A very compelling proposition, especially in these times of rising rates and signs of upcoming economic troubles.

Here are two stocks that investors may want to consider for their economically insensitive businesses and their competitive advantages in their respective fields.

SunOpta Inc. (TSX:SOY)

SunOpta is currently trading at multi-year lows, as the last few years has been anything but stable.

SunOpta specializes in the sourcing, processing, and packaging of organic and non-GMO (not genetically modified) food. The company has the advantage of being vertically integrated and of having a large network of organic farms that they source from.

In the last 10 years, the organic foods market has more than doubled, with growth rates expected to continue to far exceed growth rates in the general conventional food market.

Similarly, the non-GMO food and beverage market has grown at a 10.3% rate in the last year, far outpacing conventional growth rates.

But the good news stops here.

It seems that while SunOpta is positioned in the right niche of the food and beverage industry, it has not been able to effectively capitalize on this.

And while the revamping of the company's management team and a realignment of incentives were possible catalysts, the company continues to underperform, and recent results show declining revenue and margins.

Consequently, the stock price has fallen more than 30% year-to-date.

It is up more than 10% today, which may have something to do with the fact that the company presented at an investment conference yesterday.

Incentive programs based on margins, debt reduction and the stock price still have the potential to turn things around, and I am sticking with this company as it is in a secular growth business.

Nutrien Ltd. (TSX:NTR)(NYSE:NTR)

Formed through the January 2018 merger of PotashCorp and Agrium, Nutrien is a global giant that is churning out massive amounts of cash flow, ramping up cost savings related to the merger, and just benefitting from its diverse, vertically integrated agricultural business.

In turn, shareholders have been and can be expected to continue to benefit from this, in the form of increasing dividend payments and share price appreciation.

The company's latest quarter, the third quarter of 2018, saw earnings come in above expectations, a 7.5% dividend raise, and an increase in guidance as synergies are coming in faster and higher than expected.

The stock is down marginally year-to-date, but as the company continues to outperform, the stock will follow suit.

Investors have an attractive entry point into the shares of Nutrien currently, as it is trading at attractive valuations, offers a dividend yield of 3.35%, and offers an increasing EBITDA and cash flow profile.

A defensive stock that will prove to be a solid holding into the next few years.

CATEGORY

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2. TSX:NTR (Nutrien)
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Date
2025/07/21
Date Created
2018/11/28
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