Buying Stocks for the Next Depression? Try This Discounted Humdinger!

Description

Investment advice has been pretty gloomy for most of the past year, with pundits telling investors to get defensive and check what they're holding. However, while 2019 had already been written off in most quarters as being the year that the bear market returned in full swing, nobody could have predicted how bad a note 2018 would have ended on.

With markets plunging on every side and Wall Street faring its worst since the depths of the Great Depression, many investors are no doubt wondering whether it's wise to stay invested. Below I will look at the kind of TSX index stock that Canadians should buy right now and hold onto no matter how bad the economy gets.

Canadian Utilities (TSX:CU)

A one-year past earnings contraction by 29.4% may look bad compared to the industry average of 16.3% for the same period, and even Canadian Utilities' own five-year average past earnings contraction by 8.3%. But let's face it: it's been a tough year, and the utilities sector has been a harsh place of business for all but the very biggest of tickers.

A PEG of 1.4 times growth indicates good value, while a P/B ratio of 1.7 times book nudges in just below the Canadian integrated utilities sector average, further indicating attractive valuation. While a P/E of 21.5 times earnings might look a tad high, this is fairly normal for a high-performance stock (look at that high growth and meaty dividend). If you want more evidence of undervaluation, look no further than a share price discounted by 42% against future cash flow value.

You said something about dividends?

Let's get down to the real nitty gritty. First of all, rick-conscious investors should be aware that Canadian Utilities holds quite a lot of debt: to the tune of 159.2% of net worth, to be precise. Is this worth the proffered dividend yield of 5.19%? With a 15.8% expected annual growth in earnings (attractively high for the Canadian utilities field), the answer might be in the affirmative for all but the most risk-averse of dividend investors. After all, utilities stocks are about as defensive as they come,as this one is clearly on the ascendant just when a potential recession is looming.

Okay, so Canadian Utilities shed 3.04% in the last five days; you won't find more than a handful of Canadian stocks that haven't lost some value over this already-dreadful Christmas period, however. Ordinarily a dip like that might signify a value opportunity: today that drop in share price makes this ticker look more like a gem glittering in the smoke of a house fire. With a beta of 0.42, the data indicates nice and low volatility compared to the market, and a generally low-risk investment.

The bottom line

Buying stocks on the TSX index as the country potentially nosedives into a recession? It sounds like madness, but this stock is special: it's got actual growth ahead of it, it's dirt cheap, it pays a dividend, and I've calculated it as a moderate buy using the latest data. Even in the teeth of a potential global economic depression, Canadian Utilities is a defensive humdinger of a stock that deserves a place in your dividend portfolio.

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