Last Call: Beef Up on These 2 Defensive Stocks While They Remain Undervalued

Description

We've witnessed the **S&P/TSX Composite Index** (TSX:^OSPTX) make up a significant portion of what was lost in late 2018.

The index is up almost 10% from December lows in what has proven to be a strong reversal of market momentum.

But will this hold up in an economy that is slowing amid an environment of high household debt and a weakening housing market.

In my view, the market is still vulnerable and I think defensive will win the day at this point.

So consider getting defensive and beefing up on these two stocks:

Metro Inc. (TSX:MRU)

These days, everything seems to be working for Metro, as earnings growth, dividend growth, and investor sentiment remain positive.

Along with its recession-proof business, these factors can reasonably be expected to take Metro stock to new heights in 2019.

Metro stock has increased 150% since five years ago and has rallied almost 25% from October lows, as the market has rewarded defensive stocks.

This makes sense, as Metro's business is an economically insensitive one, and as the company has continued to post strong results and as dividend increases have been typical of the company.

To illustrate my case, 2018 EPS was $0.63 versus $0.51 in the same period last year, for an increase of 23.5%, buoyed by the Jean Coutu acquisition.

The annual dividend was increased by 16% in 2017 to $0.65 per share and by 10.8% earlier this year to the current $0.72 per share.

With an $11 billion market capitalization and a 1.46% dividend yield, Metro has been and will likely remain a story of consistency, stability, and shareholder wealth creation.

MTY Food Group Inc. (TSX:MTY)

MTY Group stock is another defensive stock, but this one is a consolidator in the restaurant business, so although it is not as recession-proof as Metro, it remains relatively sheltered from economic woes.

The stock's multiples do not reflect the strong growth that the company has seen, or the strong returns that are inherent in its business.

MTY stock has declined 7% since recent highs in a move that provides investors with the opportunity to snatch it up at a bargain.

The company's continued acquisitions of new restaurant chains has driven an almost 200% increase in revenue in the last five years, to $276 million in 2017, and a more than 200% increase in cash flows, driving increasing returns, while maintaining a healthy balance sheet.

In fact, in the last 15 or so years, MTY has acquired and integrated more than 60 brands, doing so successfully and maintaining a healthy balance sheet and stock price, which has grown at a compound annual growth rate of 13%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)
2. TSX:MTY (MTY Food Group)

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Date
2025/08/29
Date Created

2019/01/19
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