2 Defensive Stocks With Expected Growth in Earnings for Nervous Investors

Description

So, you thought 2018 was bad? This year is shaping up to be a roller coaster of an entirely different type, with bigger dips and peaks and twists of every kind. From heated political machinations on both American continents to unrest across the pond in the shape of Brexit, and with trade tensions piling on just to make things even more interesting, 2019 is already throwing every kind of uncertainty at investors.

Below, you will find two of the types of stock on the TSX index that investors both nervous and canny should stay in to keep on the safer side of the stock market. If you've been thinking of cashing in any overheated tickers and moving into a more defensive position, this duo of sturdy stocks should stand you in good stead.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS)

This is a sweet-looking pick at the moment, and all the more so from the perspective of our uncertain times. A P/E of 10.7 matches a P/B of 1.4, given a fairly good indication of value (though that P/B is a little high). A good-enough dividend yield of 4.62% offers the passive-income fan a bit of a boost, too.

It's a good-quality stock, with a last-year ROE of 13% and last quarter EPS of $6.89. A 6.4% expected annual growth in earnings isn't significantly high for the TSX index, but for Canadian banking, it's certainly not bad. With an array of financial challenges facing homeowners, any amount of progress in banking is a good thing at the moment.

Enbridge (TSX:ENB)(NYSE:ENB)

It’s a shame to see a one-year past earnings dip -39.2% in a stock like Enbridge, but then it’s been a hard 12 months pretty much all across the board. Its five-year average has been much more favourable, though, at 31.2%, so that’s where the defensive stats kick in. A 22.5% expected annual growth in earnings shows that this positive trend will continue and goes nicely with a chunky 6.18% dividend yield.

Compare these glowing stats with one of the safest real estate investment trust (REIT) plays in town, though, and you’ll see why banking and utilities still beat investments like REITs for security and growth.

Take **Agellan Commercial REIT** (TSX:ACR.UN) for example: it’s nicely valued, with a share price discounted by a whopping 39% next to its future cash flow value, and low multiples, such as a P/E ratio of 6.4 and a near-perfect P/B ratio of 1.1, back up this valuation.

Its five-year average past earnings growth of 38.1% shows a stock with a good track record, though its one-year past earnings growth of 21% was just shy of the year-to-date REIT average of 24.6%. Agellan Commercial REIT is probably the best of the REITs in terms of debt, which is around 55.8% of net worth, and a dividend yield of 5.69% should keep the passive-income crowd happy.

The bottom line

So, why isn’t the REIT pick a buy? It’s because of negative future income. Sadly, if you want a positive outlook in REITs, you have to go for a stock carrying close to 100% debt. Agellan Commercial REIT’s -3% expected earnings shows that this sector can’t compare with the best defensive plays on the TSX index. If you want to toughen up your portfolio and stay on the safe side, stick to the likes of Enbridge and Bank of Nova Scotia for your passive-income investments.

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