Transport and Agriculture: An Overlooked Investment Strategy?

Description

Transport and agri stocks might make an unusual pairing, but for investors overly exposed to the usual mix of financials and utilities, the following unlikely tag team would add instant diversification to a TSX index portfolio. While these stocks aren't the kinds of high-performance tickers beloved of capital gains investors, their inclusion in a portfolio could add a little extra defensiveness.

Nutrien (TSX:NTR)(NYSE:NTR)

Negative year-on-year earnings may put this stock in the watch-list zone, while a debt level of 37.8% of net worth indicates only a moderately clean balance sheet. However, more shares have been bought than sold by Nutrien insiders over the past three months, and the stock is currently attractively valued with a P/B of 1.3 times book.

The casual passive income investor should be interested to see that this major potash miner (yes, you would get exposure to more than just one industry through buying Nutrien) offers a dividend yield of 3.23%, and will enjoy a projected 36.5% annual growth in earnings over the next few years.

TFI International (TSX:TFII)

If transport and logistics are lacking in your personal investment portfolio, why not stack shares in TFI International? It's got a decent track record, as shown by an impressive one-year past earnings growth of 84.8% and a five-year average of 27%, either of which rates would signify a stable investment. Decent value is indicated by a P/E of 12.3 times earnings, though its P/B of 2.2 is a shade high.

While its balance sheet could be stronger (see a comparative debt level of 101.3% of net worth), TFI International's quality is indicated by a future ROE of 20.1% that should follow on nicely from a past-year ROE of 19%. A dividend yield of 2.35% is on offer, although growth investors may want to consider a mediocre 4.1% expected annual growth in earnings with caution.

FedEx (NYSE:FDX)

Let's turn for a moment to what is perhaps the best benchmark for North American logistics. FedEx is for all intents and purposes a very similar stock; see that balance sheet carrying 92.6% of debt, while a future ROE of 19.5% is very similar to TFI International's projected return on equity over the next three years.

In terms of a track record, TFI International is the stronger stock, with FedEx's negative one-year past earnings lagging the previous stock's very good year, while a 21.6% five-year average at least comes close. Valuation is similar, with a P/E of 12.7 times earnings and P/B of 2.8 times book, though while FedEx pays the lower dividend yield of 1.49%, its 11.8% expected annual growth in earnings predicts a better outlook.

The bottom line

Pairing a logistics stock with a major agri materials producer may prove to be both lucrative in the long run as well as a solid defensive investment strategy. While there are higher dividend yields to be had on the TSX index, adding either Nutrien or TFI International (or both) to a standard investment portfolio heavy with financials, utilities and miners would add quick diversification, spreading the risk inherent in an overly exposed stock selection while adding some passive income.

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