TFSA Investors: 3 Top Defensive Stocks to Own in a Recession

Description

With the yield curve again showing long-term interest rates that are below shorter-term rates, we cannot avoid talking about the dreaded “R” word.

This inverted yield curve is a leading indicator that signifies a recession is coming.

So at this point, it’s prudent to shore up our TFSA portfolios with more defensive stocks that will survive — and even thrive — in recessionary times.

The focus here is on companies that provide essential products and services — and that will therefore prove to be more resilient in this environment.

Today I will focus on the consumer staples stocks that are looking good as we possibly head into difficult economic and stock market days ahead.

Metro Inc. (TSX:MRU)

With a $12.4 billion market capitalization and a 1.63% dividend yield, Metro continues to be a story of consistency, stability, and shareholder wealth creation.

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.

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 increaseof 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% in 2018, and by 11% in 2019, to the current $0.80 per share at writing.

Loblaw Companies Ltd. (TSX:L)

Loblaw is a similar defensive story benefitting from the defensiveness of its industry.

Loblaw stock has been paying investors a growing annual dividend, which is currently at $1.18 per share for a dividend yield of 1.80%.

Over the last many years, Loblaw has successfully used its scale in order to drive operating efficiencies and to drive value for the consumer, driving a three-year annual EPS growth rate of over 12%, and accelerating sales and margin improvements.

Alimentation Couche-Tard Inc. (TSX:ATD.B)

Alimentation Couche-Tard is still hovering near all-time highs, as the company has been firing on all cylinders and as investor sentiment has been shifting toward more defensive stocks.

With a global network of 10,000 stores globally, the company has a history of profitably growing, both organically and through acquisitions.

Strong cash flows is one of the key characteristics of the company's business model, as demonstrated by the company's free cash flow generation (excluding acquisitions) of approximately $3 billion in the last three years, its 8.6% five-year compound annual growth rate in operating cash flow, and its respectable free cash flow margin of over 2%.

Going forward, we can expect continued synergies from the company's recent acquisitions, as well as deleveraging of the balance sheet, and continued growth both organically and via acquisitions, with the company's target being to double the company once again.

CATEGORY

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2. TSX:MRU (Metro Inc.)

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