Prepare for a Recession With This Bulletproof Stock

Description

According to some big personalities, Canada is one step away from entering a recession.

"It is plain to see that the Canadian economy needs help," said David Rosenberg last month. Rosenberg is the Chief Economist at Gluskin Sheff + Associates Inc. "It is perilously close to a recession."

Others remain skeptical.

"They would be incorrect," said Finance Minister Bill Morneau, responding to the rising choir of doomsayers. "That would be technically wrong and certainly not in line with our expectations."

So, which is it?

Whatever the future holds, it's always a good time to diversify your portfolio with stock picks that can withstand any sort of economic shock. Ideally, these stocks can still grow in a healthy economic environment, too.

With a 2.6% dividend and a large competitive moat, **Molson Coors Canada Inc.** (TSX:TPX.B)(NYSE:TAP) could be that perfect stock.

Digesting a giant

Founded in 1786, Molson Coors is the oldest brewery in North America. Today, it's the largest beer company in Canada, with seven brewing facilities and more than 3,000 employees. You've likely heard of many of its largest brands, including Molson Canadian and Coors Light.

In 2016, Molson had the rare opportunity to buy a significant number of competing brands. When brewing giant SABMiller merged with **Anheuser Busch Inbev NV**, regulators forced it to divest its interest in Miller Coors, which had the U.S. rights to many of Molson's brands.

For $12 billion, Molson was able to recapture the U.S. as a major customer.

The move had downsides, however. Debt to EBITDA levels went from 2.2x to 5.1x overnight. EBITDA margins also took a hit as the company absorbed the cost structure of its multi-billion acquisition.

Since the acquisition, shares are down around 30%, a rare drop for such a reliable company. For savvy investors, this looks like a great entry point.

Fundamentals are improving

While the market has been unimpressed by sluggish growth and profitability, this is to be expected after Molson nearly doubled the size of its business in 2016. While investors were hoping the company could integrate the acquisition quickly, taking a few years to get the pieces in order isn't that irregular.

While it's taken some time, Molson finally looks ready to benefit from its transformation acquisition.

In the second half of 2018, the company finally experienced organic EBITDA growth, therefore suggesting that fundamentals are starting to stabilize. EBITDA expansion is being fueled by long-expected cost synergies.

In 2019, Molson anticipates generating $200 million in operation cost savings. From 2020 to 2020, management expects to remove an additional $450 million in costs from the business.

Debt levels are also now back under control. This year, Molson should reach debt to EBITDA levels of 3.8x, an impressive reduction from its 5.1x level in 2016. Over the next few years, as Molson continues to focus on improving its financials, expect debt levels to continue their decline.

Reliability that's fairly priced

At today's price, it's tough to argue that you're overpaying for shares.

Last year, the company generated EBITDA of US$2.5 billion, meaning shares trade at just 5.2x EBITDA. With cost synergies taking hold, this looks like a fair price to pay, even if organic EBITDA growth remains flat.

Where Molson will truly shine, however, is during a recession.

Back in 2008 and 2009, when global markets fell between 20%-60%, Molson shares remained flat. Those years were the toughest in decades, yet Molson shareholders lost nothing.

You won't double your money by buying Molson stock, but paying a fair price for a proven, recession-proof company sounds like a great addition for any portfolio.

CATEGORY

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