



## This Company Is 1 of the Best Defensive Stocks to Protect Your Portfolio

### Description

It's important for investors to have a disciplined and diverse portfolio that's capable of withstanding unforeseen shocks. Having the right amount of cash or liquidity available is one step. It is also important to position your equity portfolio to perform as optimally as possible, even in poor market conditions.

Nobody wants the market to underperform, but it's inevitable that the market will have corrections from time to time. Timing the market, however, is impossible. Since you don't want to divest from your stocks and possibly miss out on gains in your investment, the best way to optimize your portfolio is to buy defensive stocks.

Defensive stocks are companies in industries that are more recession proof. Real estate and grocery stores are examples of the kinds of businesses that are recession proof, because people need to eat and live regardless of the state of the economy. Since these industries don't see as much of a shock to revenues as other industries, investors flock to them for protection in anticipation of poor economic times.

One of the best defensive stocks available to investors today is **Alimentation Couche-Tard** (TSX:ATD.B)

Alimentation operates a network of convenience stores across Canada and in 48 of 50 states. It also has a large presence in Europe. In total, Alimentation has approximately 16,000 stores, operating in 25 countries, and serves about nine million customers a day. Two-thirds of its revenue and profit comes from the United States, with ~20% coming from Europe and the rest coming from Canada.

### Defensive investment

The company is considered a great defensive investment because of the industry it operates in. Convenience stores have proven over time that they are recession proof. Inside sales for the industry have been growing for more than 15 consecutive years, and they grew through the last two financial crises. Additionally, 73% of Alimentation's revenue comes from fuel, which is also highly recession

proof.

## Size and scale

Alimentation also has a big advantage due to its size and scale. As industry costs rise, it's able to mitigate those rising costs better than its smaller competitors. Additionally, due to its large scale, it should be better positioned to handle potential market problems.

Furthermore, when costs such as gas rise and affect some of the smaller players it competes against, Alimentation is able to minimize the increases to costs, enabling itself to capture higher-profit margins.

## Growth

If you just looked at the numbers, you wouldn't assume Alimentation was defensive, because it has seen such massive [growth](#). Since 2011 Alimentation's earnings before interest, taxes, depreciation, and amortization had a compounded annual growth rate of 22%. Although the convenience industry is growing, it's not growing at 22% a year.

Alimentation's impressive growth has been a direct result of successful mergers and acquisitions. Alimentation is known for its past performance of doing great acquisitions and integrating the new companies into its existing operations. This helps to increase scale and bring down costs. Since 2004, Alimentation has done 60 deals, adding nearly 10,200 stores to its network.

Alimentation has stated it wants to begin to increase its organic growth. In the past, the majority of growth has come from mergers and acquisitions, but going forward, Alimentation is targeting an even mix of both.

Alimentation has been preparing to grow organically by focusing on brand awareness and loyalty. The company has been re-branding many of its stores over the past few years. About 78% of corporate stores and franchises in the U.S., 81% in Canada, and 100% in Europe are now operating under the Circle K name.

## Bottom line

Whether or not the economy slows down any time soon, Alimentation will be a great investment. If Canada goes into a recession, investors will be protected by one of the best defensive stocks in the country. If the economy continues to keep growing, Alimentation will also continue to grow, offering a tremendously high return on equity for investors.

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