



The Number 1 Defensive Stock for Your TFSA

Description

A significant earnings event is about to happen. The safest cannabis stock, **Alimentation Couche-Tard** (TSX:ATD.A)(TSX:ATD.B), will announce first-quarter results for the fiscal year 2020 after the market closes today.

Alimentation Couche-Tard announced a partnership with **Canopy Growth** to open a licensed medical marijuana dispensary in Ontario in February 2019. The agreement allows Alimentation to sell legal cannabis through Canopy Growth's Tweed brand.

Alimentation Couche-Tard operates globally through recognizable convenience store brands such as Couche-Tard, Circle K, Ingo, and Topaz. Although Alimentation is in a low-margin industry, retail, the company generates more revenue than any other Canadian company on the Toronto Stock Exchange.

Tax-Free Savings Account (TFSA) investors can prepare their portfolios for the upcoming recession with stock in Alimentation Couche-Tard. Not only is the stock a safe, defensive consumer retail position, but it is also an investment in profitable marijuana legalization. Even risk-conscious investors can appreciate the high growth of a volatile industry along with a dividend yield of 0.60% through shares of Alimentation.

Alimentation faces very little competition

Alimentation is a dominant player on the TSX and a company of national interest to the Canadian government, making the stock a relatively safe investment. Earlier this year, the Alcohol and Gaming Commission of Ontario (AGCO) issued the first 25 medical cannabis licences via random lottery. Alimentation was one of this lottery's lucky winners under the shell company 2674253 Ontario Inc.

Unlucky Canopy Growth did not win this lottery. In response, Canopy Growth partnered with Alimentation to sell under Canopy's Tweed brand. In May, Canopy Growth and Alimentation opened the first Tweed brand store in Ontario.

Alimentation did not face much competition in this lottery. In fact, the window for applications was only

open for five days. Moreover, the \$75 application fee was a small addition to a \$6,000 non-refundable fee. These requirements essentially forced out aspiring small business owners who did not hear about the lottery within the five-day window and could not secure \$6,000 in that time frame.

Small business owners would have also needed to secure a small business loan of \$50,000 within this small five-day window. Worse still, if unable to begin retail operations by April 30, 2019, these aspiring business owners faced a \$25,000 fine. Essentially, the odds were stacked in favour of Alimentation and other large, established corporations.

The lesson for Canadian TFSA investors is that some stocks may be safe due to the company's political clout. Regardless of fairness, Canadian investors can use this to their advantage by investing in powerful dividend issuers like Alimentation, as long as it does not interfere with personal values.

How will cannabis impact Alimentation's bottom line?

Cannabis should boost Alimentation's low-profit margin and improve shareholder value. Alimentation's share price soared 33% in the past 12 months and will see further jumps after announcing the success of cannabis integration into its business model.

The stock's current return on equity is a healthy 21.34%, but the company's profit margin is a mere 3.10%. Quarterly earnings growth year over year is negative, reflecting the low-profit margin from convenience stores.

Because cannabis retail has a higher profit margin, Alimentation will begin to see rising margins and year-over-year earnings growth. TFSA investors should undoubtedly pay attention to this afternoon's earnings results to see how cannabis impacts Alimentation's low-profit margin and growth projections.

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