Why This Defensive Stock Belongs in Your TFSA Portfolio

Description

These days, all the talk is increasingly about all the risks that are looming for the global economy. Trade wars, increasing geopolitical risk, and economies that appear increasingly "tired" are all very valid concerns to have.

If you're getting nervous, please take a look at the following stock. It's a defensive gold stock that can take you through the hard times, leaving you with a defensive TFSA portfolio positioning in an increasingly risky environment.

The stock I am referring to is **Agnico Eagle Mines Ltd**. (TSX:AEM)(NYSE:AEM). Agnico was my top stock pick for October, as I attempt to set up more of a defensive bias in my TFSA. Agnico has many things working for it, which should serve as catalysts for superior returns in the next few years.

Production growing rapidly

With the commissioning of the company's Meliadine mine and commercial production achieved in May, and Ameruq starting production in the third quarter of 2019, Agnico will see rapidly rising production in the next few years, with estimates calling for a 31% increase in production from 2017 to 2021.

Dividend growth

Agnico has paid out a dividend since 1983 and has consistently performed better than expected, as the company benefits from operational excellence and its politically safe profile with gold mines in politically safe areas such as northwestern Quebec, Northern Mexico, Finland, and Nunavut, and exploration activities in Canada, Europe, Latin America and the United States.

Since 2000, Agnico has grown its annual dividend per share from $0.08 to the current $0.664. That's a compound annual growth rate of 11.78%. Not only do we expect this dividend growth to continue, but also to accelerate. Agnico stock is currently yielding a mere 0.92%, but it seems highly probable that dividend increases are coming imminently.

This ramp in production will result in rapid increases in cash flows, with free cash flow expected to rise to north of $650 million, depending on the price of gold. Costs and sustaining costs per ounce can also be expected to fall as a result.

Defensive stock

In my opinion, Agnico Eagle stock is the defensive stock that you're looking for.

Its defensive attributes are three-fold. First, this company benefits from the defensive characteristics of being a gold company. Gold prices can be expected to rise if global economies struggle, as investors will gravitate toward the "safe haven" trade.

Second, Agnico's mines and operations are all in politically safe countries and environments. All too often, the biggest risk of gold companies is that so many of them operate in unstable countries and can therefore explode so easily, wiping out tons of investor money.

Finally, Agnico is a best-in-class operator that has achieved industry-leading costs and that maintains an exceptionally strong balance sheet.

Foolish bottom line

Agnico Eagle is a go-to stock for those of us looking to beef up on our defensive holdings, positioning our TFSA portfolios for the volatile and risky days ahead. Agnico can provide dividend growth, fee cash flow growth, and shareholder value creation in a low risk setting.

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1. Dividend Stocks
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Author
karenjennifer