Two Defensive Stocks Are in Correction Territory: Time to Buy?

Description

A market correction is defined as a double-digit drop from a recent high. The same can be applied to individual stocks. Stocks that have entered correction territory have seen their stock price drop by at least 10% from recent highs.

At times, a stock can also enter oversold territory in said correction. Case in point: **Dollarama** (TSX:DOL) and **Premium Brands Holdings** (TSX:PBH) had a 14-day **Relative Strength Index** rating below 30 as of end of last week.

This is one of the most used indicators that a stock is currently oversold. It's also a signal that the company may be due for a short-term bounce.

Are these two stocks a buy today? Let's take a look.

A discount retailer with slowing growth

Despite recent performance in which its stock has lost 11% over a three-month period, Dollarama is still one of the best performing stocks on the Index.

It has rebounded from a dismal 2018 and its stock price is up 41% thus far in 2019. As a retailer, Dollarama is not a traditional defensive stock.

However, as a discount retailer, it tends to perform better than most when there is an economic downturn and consumers are looking to save a buck or two.

In 2018, Dollarama's stock was punished due to slowing growth and increased competition. At the time, it was trading at valuations in line with hyper-growth expectations. The reality is that the company is no longer on track to grow at a 20%+ clip. In fact, the expectation is for 11% average annual earnings growth over the next five years.

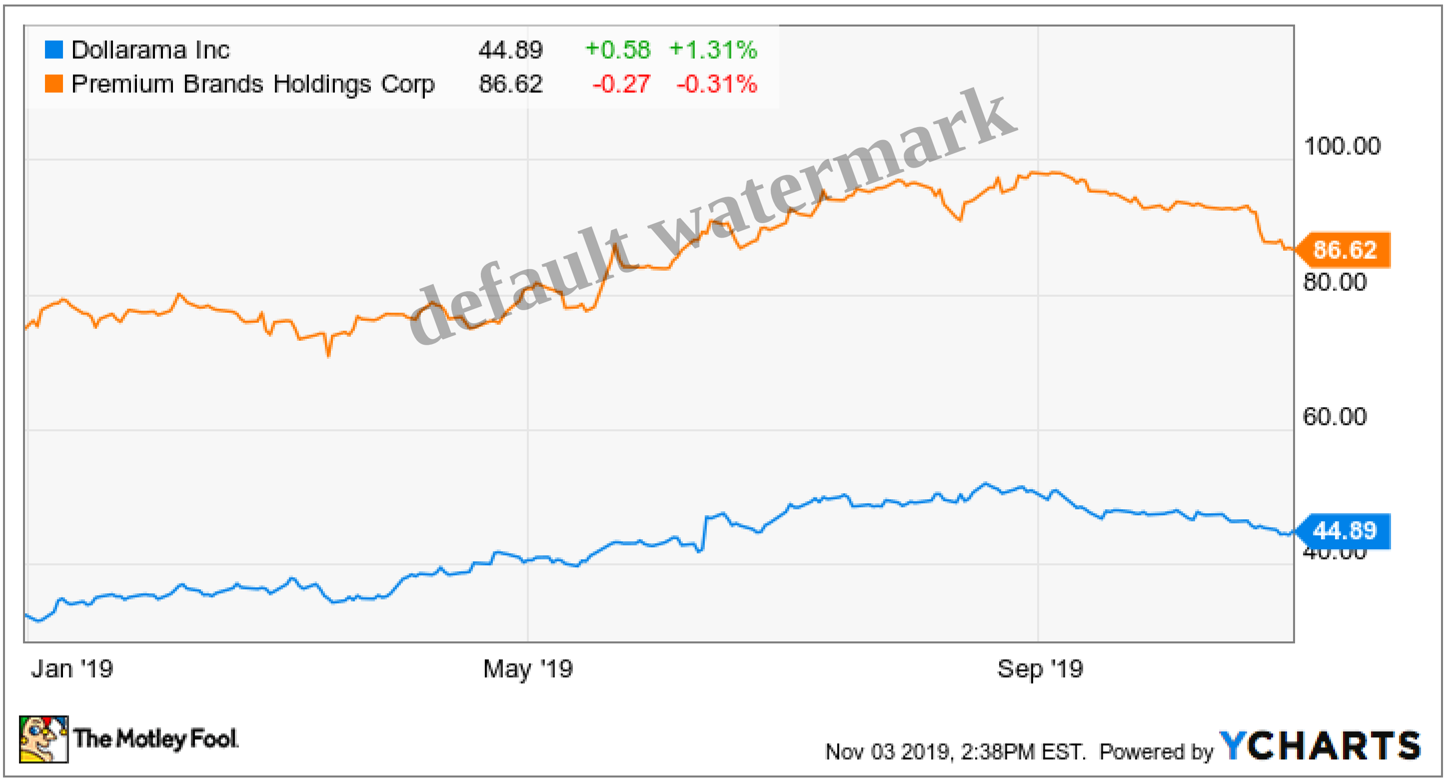
Trading at a forward price-to-earnings (P/E) ratio of 18, the company isn't exactly cheap. It isn't however, all that expensive when compared against its own historical averages (26x) or as compared to the industry average of 21 times next year's earnings.

Considering this, the company's current downtrend looks [like a buying opportunity](). Dollarama looks fairly valued, and as such, investors can expect the company's share price to track expected earnings growth. This would result in average annual growth in the low teens.

It is a thought shared by analysts with a one-year price target of $50.75 per share, which implies approximately 13% upside.

A defensive stock with hefty growth rates

The prototypical consumer defensive stock, Premium Brands Holdings has also lost approximately 11% over the past three months. In fact, Dollarama's and Premium Brands 2019 charts look quite similar:



As of close on Friday, Premium Brands had a 14-day RSI of 22.2 which ranks it among the most oversold stocks on the **TSX Index**. Once again, the current downtrend looks like a buying opportunity.

There has been no material news involving the company, and last quarter it crushed estimates. The company is next scheduled to report third quarter earnings on November 11. Premium Brands also looks cheap.

It's trading below industry averages with has a P/E to growth (PEG) ratio of 0.94, which implies that its stock price is not keeping up with expected growth rates.

Speaking of which, the expectation is for 24% average annual earnings growth over the next five years. Such high-growth rates in the consumer defensive sector is a rarity.

Given the indications of a looming recession, locking in a solid defensive stock with high-growth rates can position your portfolio to outperform.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:PBH (Premium Brands Holdings Corporation)

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Date
2025/08/17
Date Created
2019/11/04
Author
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