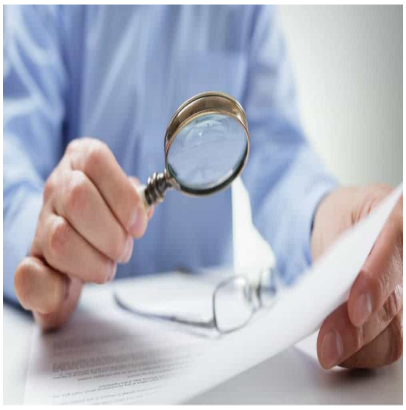

RRSP Investors: 1 Defensive Stock to Watch Today

Description

Before the Canadian federal election, I'd discussed why investors should keep an eye on food stocks. The major parties did not offer much when it came to tweaking policy in this sector, but rising food prices have been on the minds of consumers for years. Certain food stocks offer up potential as a defensive play.

Defensive stocks can be useful in a retirement account. I like companies that can produce for investors even in a difficult economic environment. Today, I want to look at one that has caught my eye after suffering from a rough patch over the past few months.

A defensive stock that deals in dairy

Saputo (TSX:SAP) is a Montreal-based dairy processor. Interestingly, a debate over Canadian dairy policy found its way into the election. Maxime Bernier's new People's Party vowed to end the system of supply management. This system allows specific sectors, in this case the dairy industry, to limit the supply of their products to what Canadians are expected to consume. This ensures predictable and stable prices.

Management at Saputo has come out against the policy in recent years. It has said that the policy provides a safety net for its business, but that a more liberal environment would pave the way for more growth opportunities. After the election, there is no political party with seats that is taking aim at this policy. Canadians can safely assume supply management is here to stay into the next decade.

Shares of Saputo have dropped 4.3% over the past month as of close on November 6. The stock is down 1.4% in 2019 so far. Investors can expect to see its second-quarter fiscal 2020 results this afternoon. In the first quarter, Saputo reported a 2.9% year-over-year increase in adjusted net earnings to $164.9 million, or $0.42 per share.

The contribution of its Dairy Crest acquisition had the most significant impact on revenues in Q1 FY 2020. It also built momentum on the back of higher cheese and butter market prices. Saputo projects higher adjusted EBITDA compared to the prior year, but the dairy market is still facing headwinds in

Canada and the United States. This will put a cap on Saputo's potential going forward. Saputo does not foresee any significant impacts to its business once the United States-Mexico-Canada Agreement is formally adopted.

Is Saputo stock a buy right now?

Saputo stock currently possesses a price-to-earnings ratio of 23.3 and a price-to-book value of 2.9. Shares last had an RSI of 39, which puts it outside technically oversold territory. Still, the stock is trading close to its 52-week low.

The company boasts a solid but not great balance sheet. Saputo offers a quarterly dividend of $0.17 per share, which represents a 1.7% yield. It has delivered 19 straight years of dividend growth. Saputo's role in a struggling sector and mediocre dividend yield inspired me to look elsewhere in the food space earlier this year. I want better value before jumping in ahead of its next earnings release, so I'm standing pat on this defensive stock right now.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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