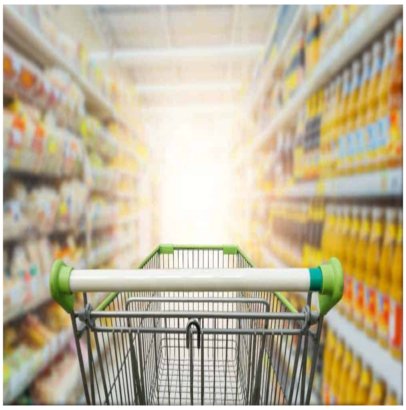

Buy This Consumer Staples Stock if You're Worried About a Slowdown

Description

In a time of record-breaking stock market performance and rock-bottom interest rates, many investors are worried about an economic slowdown and, probably even more so, a market correction.

If you are one of the many who are worried, you could benefit by brushing up on the best places to invest your money given these fears. I'm sure that we could all stand to do this, and given how high the stakes are, I would like to start.

The consumer staples sector is famously immune to economic activity. We are all going to continue to eat and drink regardless of the strength or weakness of the economy, we always need our medication, and there are certain household goods that are necessities, so all of these purchases will be minimally affected in the event of a slowdown.

Metro provides shelter from a slowdown

With over 600 food stores and 650 drugstores and pharmacies, **Metro** (TSX:MRU) has grown to become a leader in the Canadian food and pharmacy market. It is a premier food and pharmacy retailer that is backed by a strong history of operational excellence and growth. Its business is clearly pretty much immune to the ups and downs of the economy, making Metro stock a stock to buy today.

The company operates in the right industry, and it also has a solid competitive position and company-specific strengths. Backing this $14 billion company, we have a strong balance sheet, a relentless focus on cost cutting and efficiencies, and a strong history of dividend payments which are easily covered.

Dividend growth through the years

In the last 10 years, Metro's dividend has grown at a compound annual growth rate of almost 4%, and this growth has accelerated in recent years, as the company has continued to expand both geographically and with the purchase of Jean Coutu. The dividend was increased by 16% in 2017 to

$0.65 per share, by 10.8% in 2018, and by 11% in 2019 to the current $0.80 per share.

In my view, this dividend growth can be expected to continue and even accelerate going forward due to the continued strength of the business. In the company's latest results, the fourth quarter of fiscal 2019, Metro reported strength in its businesses across the board. Same-store sales growth in food retail was +4.1%, in what is a strengthening trend. Pharmacy same-store sales were also strong, showing an increase of 3.4%, with both prescription drugs and front-store sales growing at 3.4%.

Free cash flow generated was $87 million in the fourth quarter and $331 million for the full year. Metro's balance sheet remains strong, with a 30% debt-to-total capitalization ratio, and given all this, the company has reinstated its share-repurchase program of seven million shares, or 2.7% of shares outstanding. We can see from this that the business is in good standing.

With this, we can also reasonably expect that the dividend will continue its rise over the long term. Metro stock's dividend yield is currently small at 1.44%.

Foolish bottom line

If there is a slowdown coming, Metro stock is the right stock to own. Its business is a recession-proof business, its operations are top notch, and its history of profitability, cash flow generation, and shareholder value creation all make this stock a top pick if you're worried about a slowdown.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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