Defensive Investors: Here’s the “Best Buy” Consumer Staple

Description

As we come to a close in 2019 and the economy has yet to hit a recession, the chances it will happen in 2020 are only escalating.

There are a number of steps investors will have to take to set your portfolio up to survive and thrive through a recession, which mostly includes adding defensive businesses to your holdings and selling off some high-risk growth stocks that will be underperformers.

One of the top industries to gain exposure to when searching for defence is the consumer staple industry, specifically grocery stores.

Given that the main grocery stocks in Canada include **Loblaw Companies Ltd** (TSX:L), **Metro Inc** (TSX:MRU) and **Empire Company Ltd** (TSX:EMP.A), however, it can be difficult to decide which is the best stock to own for the long run, so let’s analyze each to see which company has the upper hand.

Loblaw

Loblaw is by far the largest of the three — almost twice the size of the next biggest competitor in Metro and bigger than both Metro and Empire combined.

It’s an incredibly well-run and integrated company with some of the top brands in Canada such as its President’s Choice brand. It has expanded the operations of its store’s and brand though as well through President’s Choice banking and credit services.

It’s also been working to drive additional store traffic with its optimum loyalty program, which is one of the best of its kind.

The optimum loyalty program also helps to drive customers across its other stores such as Shoppers Drug Mart.

The stock isn’t trading for cheap, however, and investors looking to get exposure today will have to pay more than 25 times its trailing 12-month earnings.

It does pay a dividend that yields roughly 1.75%, so investors can collect that while they hold Loblaw and ride out the financial storm.

Metro

Metro, the next biggest of the three, has also been building up its portfolio the last few years, acquiring Quebec's Jean Coutu drug store chain to rival that of Loblaw's purchase of Shoppers Drug Mart.

All the grocers in Canada are searching for new ways to drive increased store traffic, and Metro is no different.

It believes its acquisition of Jean Coutu will help with driving more customers throughout its stores and we've already seen glimpses of that.

In its fiscal 2019 fourth quarter, the company had same-store sales growth (SSSG) in its food division of 4.1% and SSSG in its pharmacy division of 3.4%.

The acquisition has also brought synergies to its entire business, with the company realising roughly $58 million in cost savings throughout fiscal 2019.

Similar to Loblaw, Metro is pretty expensive; although its trading at a lower price to earnings ratio, roughly 20 times earnings, it's also at all-time highs.

Empire

Empire, the smallest of the three, has been trading at relatively the same level as its peers recently. Although it's not at its 52-week and all-time high, it's just off it. The stock is also similarly valued at a roughly 22 times price to earnings ratio.

Empire has been focused on opening more FreshCo stores, its discount banner, especially in Western Canada.

The new plan has been executed well thus far, resulting in Empire seeing a 2.4% increase in its SSSG in its most recent quarter.

It also reported earnings per share of $0.49 in the quarter compared to the previous year, where it only earned $0.37 a share, a more than 30% increase.

The growth in sales has been satisfactory, but all three face increased competition from each other, so it will be interesting to see if Empire can keep up these growth rates.

Like the other two companies, it also pays a dividend, which yields roughly 1.35%, to return some cash to shareholders while investing in new opportunities.

Bottom line

With all three companies trading at roughly similar valuations, investors looking for one of these three consumer stocks would be best off choosing Loblaw because of its significant scale, which will help it become more resilient.

While these stocks aren't undervalued, higher valuations are possible in the sector if investors' demand for staples and more recession-proof industries continues to increase, so taking a position now seems like the prudent move.

CATEGORY

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2. TSX:L (Loblaw Companies Limited)
3. TSX:MRU (Metro Inc.)

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