3 Defensive Dividend Stocks for a Volatile Market in 2020

Description

Stocks are inherently volatile. There's no way around it, but you can mitigate the effect. Here are three defensive dividend stocks that should fall less than the market as a group and give you the confidence to stay invested in a bear market.

Fortis

Everyone needs to use electricity and gas every day. That's why utility stocks like **Fortis** (TSX:FTS)(NYSE:FTS) are some of the most defensive stocks you can own.

Fortis is particularly defensive. About 99% of its assets are regulated with predictable returns, and about 93% of its business is about transmission and distribution.

The quality utility's rate base has been steadily growing over time. Currently, the rate base is about $28 billion.

Fortis has a capital plan of about $18 billion to grow its assets, 75% of which will be invested in transmission and distribution assets. From 2020 to 2024, Fortis estimates rate base growth of roughly 7% per year, which will support a dividend-growth rate of approximately 6% in the period.

A dividend-growth stock of 45 consecutive years and counting, Fortis is an income stock you can count on. It's a stock you can buy on dips and forget about.

Currently, Fortis yields 3.5%. Interested investors can start buying on dips of 5-10%.

Metro

Metro (TSX:MRU) is a grocery and pharmacy leader in Quebec and Ontario, the two largest provinces in Canada by GDP. It has a network of 950 food stores and 650 drugstores under multiple banners.

Consumer defensive stocks like Metro improve the stability of an overall portfolio when bought at the right valuations.

In 2018, Metro expanded its empire by acquiring Jean Coutu Group, which primarily had operations in Quebec but also has a presence in New Brunswick and Ontario.

As a result, in fiscal 2019, Metro's sales grew 16.6%, almost reaching $16.8 billion. Excluding the Jean Coutu transaction, sales would still have increased by 3.2%.

Bottom line growth was also strong. Adjusted earnings per share increased 17.8% in fiscal 2019. Management highlighted that Metro had maintained an impressive streak of strong return on equity (ROE) — an ROE of 12% or greater every year for 27 consecutive years.

It's no wonder that Metro is a Dividend Aristocrat with a dividend-growth streak of 25 years. It just doubled its dividend in five years!

This is a company that stays profitable in all business cycles and is, therefore, a good buy whenever it's attractively valued. Right now, the stock is reasonably valued. Interested investors can consider pecking at the stock at about $50 per share in 2020.

Pembina Pipeline

Pembina Pipeline (TSX:PPL)(NYSE:PBA) is another defensive dividend stock that's resilient to bear markets due to its cash flow stability. It's no wonder two Motley Fool contributors (including myself) chose Pembina as a top stock for 2020.

Roughly 85% of Pembina's adjusted EBITDA is fee based. Additionally, about 79% of its counterparties are rated investment grade by at least one rating agency.

Therefore, Pembina's stable cash flow profile supports a safe dividend when combined with a payout ratio that has declined over time to about 78% of its fee-based distributable cash flow.

The company appears to underpromise and overdeliver. It closed the acquisition for the Kinder Morgan Canada and the U.S. portion of the Cochin Pipeline earlier than expected.

Through integrating the assets, Pembina anticipates to realize $100 million of run-rate adjusted EBITDA over the coming years. Moreover, any incremental projects (and Pembina is looking at $16 billion worth in its pipeline) will lead to greater cash flow generation.

Pembina will be increasing its monthly dividend and presently provides a decent forward yield of 5.2% that's perfect for defensive dividend investors!

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