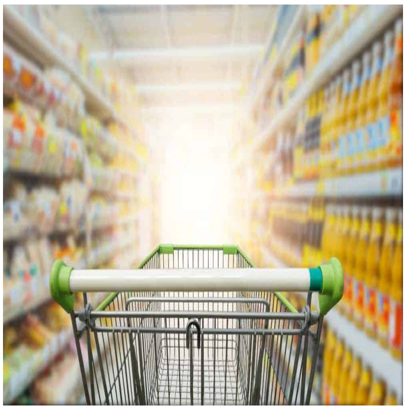

Forget Fortis (TSX:FTS) Stock: This Dividend Stock Is a Better Buy Today!

Description

Fortis stock is a top pick for conservative investors. It's too bad, though, that the dividend stock has run up 22% in the last year, driving its price-to-earnings ratio (P/E) up to approximately 22 and its dividend yield down to roughly 3.5%.

This makes the high-quality utility stock an unattractive total returns and income investment. Based on its normal long-term P/E, the stock would return roughly 3.5% to 5.5% per year over the next three to five years. This is unappealing given that average market returns are 7%.

A better-valued defensive dividend stock you can consider is **Loblaw** (TSX:L); it has dipped about 10% since September and will be a better place to park your money for price gains in the year ahead.

Competition and acquisitions

Grocery stores are highly competitive and consequently, have low margins. Therefore, other than existing competitors like **Metro** and **Empire**, it's improbable for new supermarket chains to enter the scene and be successful.

And when these chains do succeed in carving out a niche, they're often bought out by bigger players before they grow too big. This is how Loblaw scooped up T&T, an Asian supermarket chain in 2009. Incredibly, that was a timely acquisition for a wonderful bargain, when the economy was just recovering from one of the worst recessions in Canadian history.

Subsequently, in 2014, Loblaw completed the acquisition of Canada's largest pharmacy chain, Shoppers Drug Mart, which was defensive and diversified Loblaw's operations. At the time, Shoppers stock traded at a substantial discount, resulting in Loblaw paying a very reasonable multiple for the first-class asset.

Why Loblaw is defensive

Everyone needs to shop for groceries. Although some shop online (and Loblaw offers such a service), most people still prefer to go to brick-and-mortar stores so that they can feel and pick the freshest produce. And when they do, they tend to go to the location that's closest and most convenient for them to access.

Loblaw gets plenty of repeat visits from its customers at its more than 2,400 convenient grocery or Shoppers locations. In fact, each year, Canadians make one billion trips to its stores!

Its loyalty program, PC Optimum Rewards, encourages spending at its network of stores, as it allows consumers to earn and use reward points at its locations.

Great value

The recent dip in the stock price brings Loblaw to a relatively attractive valuation, which simultaneously protects an investment today while boosting future returns. At about $67.30 per share as of writing, Loblaw stock trades at a forward P/E of about 15.

The average 12-month price target is $77.60 per share, which represents decent upside potential of about 15% in the near term. The analyst target price range on the stock is narrow, which suggests the business is stable and highly predictable.

In addition to a good valuation, Loblaw also provides a safe 1.9% yield to boost total returns.

Investor takeaway

Identifying [quality businesses] is just the first step in stock investing. Although Fortis is a wonderful business, the stock is expensive.

Investors should pay attention to Loblaw, which is a defensive dividend stock that offers protection for the downside as well as good upside prospects of about 17% over the next 12 months.

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