Build a Stonewall Defense With These 3 Stocks Before the Recession Strikes

Description

The heightened volatility in recent days due to the coronavirus outbreak sent the **TSX** officially falling into correction territory. With the chances of a recession growing higher, investors are preparing to rebalance portfolios.

Among the safer options to build a stonewall defense are **Metro** (TSX:MU), **Alimentation Couche-Tard** (TSX:ATD.B), and **Loblaw** (TSX:L).

Perfect synergy

Metro, a leading food and pharmaceutical company, should do well in an economic downturn. This $14.47 billion food retailer successfully integrated two income-generating segments – food and pharmaceutical operations.

The company has 600 food stores operating under various banners (Metro, Metro Plus, Adonis, Food Basics, and Super C. On the other hand, the pharmacy side has 650 drugstores and pharmacies operating under various banners (Jean Coutu, Brunet, Drug Basics, Jean Coutu, and Metro Pharmacy) too.

Metro and Metro Plus are the leading supermarket chains in Ontario and Quebec, while Metro, Brunet, Jean Coutu, and Super C are the industry's top-ranked names in customer satisfaction. The business should remain steady as the company caters to different market segments.

While the dividend (1.42%) isn't high, the stock offers protection. The synergy of food and pharmacy makes Metro recession-resistant. Should there be food inflation and price discounts, Metro is in a position to withstand them.

Prominent consolidator

Couche-Tard is a well-known consolidator in the convenience store industry. Similar to grocery stores, convenience stores can overcome a bear market. Aside from convenience stores, this $47.12 billion company operates gas stations.

The combination produces steady revenues and stable cash flows. While the dividend yield is only 1.42%, it is safe and sustainable. Over time, there is potential for dividend growth as well as price appreciation.

Couche-Tard is expanding in the U.S. and Europe, although the activity could slow down because of the current situation. Still, the potential to achieve a grander scale is present. The company can make strategic acquisitions, improve stores, sell better products, and cut costs in the supply chain.

The company has built an image of “the great acquirer of assets.” As it’s done well in the recent past and has more room for global expansion, Couche-Tard is a buy-and-hold stock. Electric vehicles could be the next growth drivers as the company increases its investments in technology.

Biggest safety net

Loblaw is another safety net during challenging times. This $26 billion grocer is a stalwart in the consumer staples space. Whether in a boom or bust environment, the products Loblaw sells are in demand.

In its recent quarterly earnings report, Loblaw presented glowing numbers. Revenue grew by 6% due to the growth in the credit card portfolio, and food retail same-store sales increased by 1.9% during Q4 2019.

However, it was the drug retail that turned in the best growth, with pharmacy same-store sales posting 6.1% growth.

Don’t expect high yield, but Loblaw’s 1.75% should hold given its low payout ratio of 42.76%. You’ll be investing in Canada’s biggest grocer with a scaling pharmacy business.

Any pullback by the stock opens a buying opportunity. More important, you’ll be taking a defensive position if the situation worsens. If you want the ultimate consumer defensive stock, Loblaw is second to none

Peace of mind

Metro, Couche-Tard, and Loblaw are likely to endure long periods of market weakness. A portfolio built around recession-proof stocks would give you peace of mind.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

2. TSX:MRU (Metro Inc.)

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