1 Canadian Defensive Stock to Buy!

Description

With the COVID-19 pandemic spreading around the world, everyday life has been in disarray. The outbreak has forced many countries to virtually shut down, as residents self-isolate in their homes. With such fear and uncertainty, we've seen a sharp decline in the stock market as of late. Investors have started to flee to defensive stocks, like consumer staples, during these turbulent times.

The reason consumer staple stocks tend to outperform the broader markets during these times is quite simple. The demand for basic necessities is always there. Sometimes, it can even rise (see: the recent run on toilet paper). While many people will be holding off on frivolous expenses as much as possible, they still need to buy food and household supplies.

Plus, non-essential businesses are either voluntarily closing or being ordered to do so. So, it makes sense to expect consumer staple businesses to remain afloat while other types of stocks struggle.

As we get more clarity on the timeline for this pandemic, we could see more investors move to defensive stocks. Today, we'll take a look at a Canadian defensive stock in the consumer staple space that can protect investors during these tough times.

Metro is a defensive grocery stock

Metro (TSX:MRU) is a leading Canadian grocery and pharmaceutical supplier. The company operates 950 grocery stores and 650 drug stores across Canada.

With the type of services it provides and its coverage across the nation, Metro is well positioned to post solid numbers as consumers continue to purchase staple goods.

Also, Metro runs at nearly twice the profit margin that **Loblaw** operates with, and its payout ratio is roughly 30% while Loblaw has a ratio of roughly 42%. This suggests that if margins were to slide due to supply issues, Metro probably stands a better chance at being able to maintain its dividend.

With a dividend yield of 1.62%, Metro will not only offer investors short-term upside in share price but also a modest but steady source of cash flow.

Defensive stocks are on the move

Defensive stocks in general have been on the upswing — or at least not falling nearly as much as broader indices. Specifically, Metro has a 0.17 five-year monthly beta, meaning it does not follow the market's moves very closely. In fact, Metro has already traced back to its pre-crash price level.

Plus, with no imminent end in sight for the spread of COVID-19, there's no reason to suggest that Metro can't keep climbing. While other businesses may struggle, Metro will keep trucking along.

Now, the long-term investor probably isn't going to be concerned with going defensive right now. They would be better off in the long run buying blue-chip growth stocks and holding them. However, investors nearing retirement (or those with a low risk appetite) can't afford to lose more over the next 12-18 months. This is why we've started to see money move toward these types of defensive stocks.

The bottom line

So, to protect yourself in the short-term, picking up shares of Metro could be the right move. As a staple defensive stock, its business is secure and the share price has room to grow. On top of that, the stock provides a solid yield in a low interest rate environment.

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Date
2025/07/03
Date Created
2020/03/19
Author

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