2 Heavily Indebted Sectors That Will Be Okay in a Recession

Description

As with many things in the financial sphere, investors should consider the debt loads of companies before making an investment. Debt load is a key fundamental metric. Also, these investors need to be cognizant of the difference between absolute debt levels and other measures of relative debt loads for such companies.

One of the most common metrics an investor can use to consider relative debt levels is the debt/equity ratio. This tells an investor what percentage of the company's value is comprised of debt. A company's enterprise value consists of its debt, plus its equity, as dictated by the stock market. In this article, I'm going to discuss two sectors with major players carrying massive debt loads but reasonable debt/equity ratios. Investors can sleep well at night owning these stocks.

Telecommunications

Most Canadian investors know that Canada's telecommunications sector is perhaps one of the safest places to park cash for long periods of time. This is due to the oligopolistic nature of the sector. As with other highly capital-intensive industries, telecom producers have continued to invest heavily each and every year to maintain service for a growing population that continues to use more and more data. In addition, they are investing in new technologies such as 5G. These investments have the potential to transform the way we all consume content.

Companies like **BCE** are well positioned to meet the demands of its customers while taking on more debt. This is mainly due to the ability of these companies to finance such debt at very low rates, because they can generate increasing cash flows over time. Additionally, the revenue streams of telecom giants are very sticky/stable due to the fact that users are extremely unlikely to ever cancel their plans. This makes raising debt a very easy task, in general, for companies like BCE.

Utilities

Iconic investor Warren Buffet has made a vast fortune investing over extremely long periods of time in stable sectors. Examples include utilities and railroads. These sectors also have something in common with the telecom industry. High capital expenditures are required as well as massive debt loads to finance capital expenditures/growth opportunities.

One of the Canadian utilities companies I like the most also has an energy component. However, it certainly fits within the profile of highly indebted sectors/companies I'm discussing in this article. **Algonquin Power & Utilities** has used large debt issuances to both expand services and make capital investments to its existing operations. Algonquin has also made well-timed, prudent acquisitions, which have increased stakeholder value over time.

Stay Foolish, my friends.

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