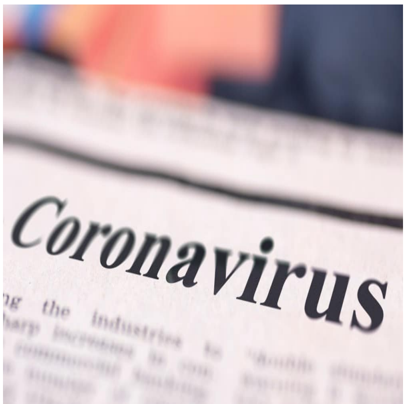

COVID-19 Shutdown: Which Stocks Are Deemed Essential Services?

Description

Earlier this week, the Ontario and Quebec provincial governments announced that all non-essential services must close. In an effort to stem the spread of COVID-19, the government is making use of its provincial state of emergency powers.

The move was inevitable. Governments worldwide are implementing such measures, and it's only a matter of time before all provincial governments follow suit. It will no doubt have a big impact on the economy — and not in a good way.

On the bright side, however, certain businesses stand to benefit — those deemed essential services. Although the list is broad, here are a few **TSX-**listed options for those looking to shore up their portfolio with stocks that are more defensive in nature.

The most important essential service

No matter how bad it gets, Canadians need to eat and require access to medication. As such, grocery stores and pharmacies are arguably the most essential services. Taking that into consideration, there is one stock that covers both industries: **Loblaws** (TSX:L).

Loblaws is one of Canada's largest retail operators and the parent company of the Market, Real Canadian Superstore, PC Financial and Shopper's Drug Mart. It also owns Joe Fresh, President's Choice, No Name and Life Brands. No company better positioned to weather the current economic downturn.

With over 2,500 locations nationwide, it's within 10 kilometres of 90% of Canadians — a moat that's unmatched in Canada. The company's share price is holding up better than most, losing just 14.90% of its value. In comparison, the **S&P/TSX Index** has lost 37% over the same period.

As the list of essential services narrows, Loblaw stores will be some of the last to close — if they ever do. Expect growth to slow in the coming weeks and months as Canadians practice social distancing. The important thing to remember is that customers will continue to frequent its stores.

Finally, Loblaws is also a Canadian Dividend Aristocrat and owns an eight-year dividend growth streak. It provides a respectable 2.11% yield, which is better than any fixed income investment. Because it can keep its doors open as an essential service, Loblaws is one of the few companies that's in no danger of a dividend cut.

A top utility company

Canadians need power and utility companies such as **Fortis** (TSX:FTS)(NYSE:FTS) are also categorized as essential services. It's likely that government initiatives will be put in place to reduce the financial burden on customers. But not to worry: these initiative to reduce rates or delay billing will be offset by subsidies.

Utilities are highly regulated and have deemed rates of return. In other words, they are already lean organizations. If anything, there may be delays to big capital projects, but there should be limited impact on financials in the short-to-medium term.

With respect to day-to-day cash flows, Fortis should also see limited impact. With 99% of earnings coming from regulated utilities, Fortis is a cash-generating machine.

At 46 years, Fortis owns the second-longest dividend growth streak in Canada. The dividend accounts for only 48% of earnings and 31% of operational cash flow.

As an essential service, it is one of the safest stocks in the country, and its dividend is well protected.

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Date
2025/07/20
Date Created
2020/03/26
Author
mlitalien