Stock Market Crash 2020: Protect Your Portfolio With This TSX Stock

Description

As the COVID-19 outbreak continues to drag financial markets down, buying quality defensive stocks can add much-needed stability to your portfolio. Defensive stocks install a safety net and act as a hedge when markets are volatile. However, with hundreds of stocks to choose from, how do you select that one quality stock that will preserve your capital and provide capital appreciation?

To keep it simple, I considered companies with matured businesses, stable earnings, consistent dividends, and that are less volatile (have low betas). I zeroed in on **Metro** (TSX:MRU), which meets those criteria.

Metro operates about 950 food stores under different grocery banners that appeal to both masses and classes. It also has a network of nearly 650 drugstores. Metro's financial performance is less tied to the economic cycles, implying that the company's grocery stores and pharmacies will continue to do well, regardless of the economic distress. For instance, people will continue to buy food, household items, and medicines, even when the economy remains depressed.

Investors should take note that Metro stock has been resilient to the recent stock market carnage. Metro stock is up about 7% year to date, as compared to more than a 23% decline in the broader market.

Why buy Metro stock?

Metro's key performance indicators look solid. The company's food and pharmacy same-store sales continue to grow at a healthy pace. Meanwhile, margins are in good shape, thanks to the lower operating costs as a percentage of sales.

The company's food same-store sales increased by 1.4% year over year in the first quarter of fiscal 2020. Meanwhile, pharmacy same-store sales rose 3.6%, reflecting continued growth in prescription drugs and front-store sales.

Metro's gross margin expanded 20 basis points, while adjusted EBITDA margin increased 130 basis points in the first quarter. The operating expense rate fell 70 basis points. Moreover, the adjusted EPS increased 6% year over year, thanks to the higher sales and improved margins.

The company's strong financial performance enables it to boost shareholders' returns through higher dividends. Metro is a Dividend Aristocrat and has consistently increased its dividends for more than 25 years. Metro, during the first quarter of fiscal 2020, increased its quarterly dividend by 12.5%. Moreover, it also increased the dividend payout target to a range of 30% to 40%.

Bottom line

Metro's product offerings will continue to be in demand regardless of the overall state of the economy, which ensures stable future earnings. The company's online grocery shopping services currently covers 60% of the population in Québec and in the Greater Toronto Area, which is likely to increase further. The expansion of online shopping services could drive traffic and accelerate sales growth.

Metro stock has a beta (five-year monthly) of 0.17, implying it will not be heavily impacted by the rising volatility and uncertainty in the market. Metro stock trades at a forward P/E ratio of 17.6 times, which looks fair to me. Also, the company offers a healthy dividend yield of 1.6%.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/07/01
Date Created
2020/03/26
Author
amitsingh