2 Defensive Stocks to Buy on the TSX in 2020

Description

Risk-averse investors should take a closer look at defensive dividend stocks **Alimentation Couche-Tard** (TSX:ATD.B) and **Fortis** (TSX:FTS)(NYSE:FTS) available on the **TSX**.

Couche-Tard: A defensive stock

Alimentation Couche-Tard is a consumer staple defensive stock. It will withstand the economic impact of the coronavirus crisis better than many other companies.

It is a leading convenience store consolidator and operator in Canada, the United States, and certain parts of Europe. Many of its locations also offer road transportation fuel.

Couche-Tard sells time and convenience, as evidenced by 80% of its in-store merchandise being consumed within one hour of purchase. Its stores are also well located in close proximity to its customers.

However, I expect its fuel volumes to decrease, in the short term due to lower demand for fuel at gas stations, as people are working from home as much as possible instead of driving to the office.

Notably, about 65% of Couche-Tard's transactions are for convenience only, while 25% are fuel only.

The company has a track record of growing its profitability, cash flow, and dividends, which remained strong through past recessions. As happened previously, I believe its business will remain resilient in today's tough economic environment.

The coronavirus will have a temporary impact on the business. It can therefore moderately reduce Couche-Tard's earnings in the near term.

The defensive stock is cheap

As a result, the stock trades at a relatively cheap valuation. At writing, at $32.60 per share, the defensive stock trades at an estimated price-to-earnings ratio of about 13.1.

In the long run, Couche-Tard still has lots of global consolidation opportunities in the fragmented convenience industry. Particularly, it sees opportunities in the U.S. and Asia.

Couche-Tard generates strong free cash flow (FCF). In the trailing 12 months, it generated more than US$1.96 billion of FCF but paid out less than 11% as dividends.

The company recently increased its quarterly dividend by 12%. An investment in the defensive stock is a focus on growth as its dividend yield is small at about 0.9%.

Fortis: A defensive dividend stock

Fortis is another defensive stock to consider. It has shown super strong resilience against the bear market. Despite the TSX falling about 27%, Fortis is trading at a price-to-earnings ratio of about 19.3, its long-term normal valuation.

The regulated nature of the utility allows the company to generate stable earnings and achieve reasonable growth through cycles. It provides essential electricity and gas to its customers and earns approximately 65% of its earnings from the United States.

Fortis offers a decent yield of 3.8%, which is supported by a payout ratio of about 72%. Going forward, it plans to increase its dividend by about 6% per year. With a fair valuation, a nice yield, and a sustainable growth rate, an investment today should lead to long-term total returns of about 10%.

That said, the bear market might pull Fortis stock lower. If investors could accumulate the defensive stock at $38-44 per share, it'd be a super opportunity.

The Foolish bottom line

Conservative investors should consider defensive stocks Couche-Tard and Fortis in this bear market. The dividend stocks should be above-average resilient. Simultaneously, they offer safe dividends set to grow through thick and thin.

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