



Is Fortis the Best Recession Stock on the TSX?

Description

The investing landscape in North America right now is as peculiar as it's ever been. Apart from trying to forecast how **TSX** stocks will do when lockdown restrictions are lifted, investors are also trying to figure out how long this new environment may last.

While this market crash has created many great opportunities for long-term investors, others are also concerned that we could enter a lengthy recession, even after we've lifted lockdown orders.

As many investors know, some of the top stocks to buy if you're worried about a recession are utility stocks. It isn't just utility stocks, however. Any industry that's essential and deemed to be defensive will outperform those that are discretionary.

If you think about it, the theory makes perfect sense. When consumers have less money to spend, the rational consumer will make sure they pay their essential bills first. This means consumers will pay their rent, buy their groceries and pay their utility bill before they buy themselves a new TV or other luxury items.

So how does **Fortis Inc** ([TSX:FTS](#))([NYSE:FTS](#)) a top utility stock fare against other defensive stocks?

Top TSX utility stock

Fortis is an investor favourite in the utility industry. The company is a massive \$25 billion company with assets in numerous jurisdictions across North America.

The stock is extremely reliable, earning more than three-quarters of its revenue from electricity services. Plus, more than 95% of its revenue is regulated, so its cash flow is highly predictable.

It's well positioned financially, pays an extremely sustainable dividend and is one of the best options to help protect your money in a [recession](#).

The dividend yields roughly 3.5% at these prices; however, at approximately \$55, the stock is less than

10% off its 52-week highs.

Although Fortis is still a buy at these prices for those concerned about a recession, because it's an investor favourite, it tends to trade at a premium. Another top utility stock to consider is **Canadian Utilities Ltd** ([TSX:CU](#)).

Value utility stock

Canadian Utilities is another high-quality choice for investors looking to add some defence to their portfolio. Although it does offer slightly better value, the stock still isn't that cheap, which is testament to its resiliency through bear markets and recessions.

Like Fortis, the company's assets are well diversified, deriving its revenue from both electricity and natural gas, with 92% of its total revenue being regulated.

Looking at its [financial position](#), Canadian Utilities is in slightly better shape than Fortis' — and the company's dividend yields roughly 4.9%, which is significantly higher than Fortis.

That dividend is estimated to have a payout ratio of just 85% in 2020, giving the utility a significant margin of safety.

Best defensive TSX stocks

One last thing that makes utility stocks generally better defensive stocks than consumer staples is the higher dividend yield. During a recession, some of the best-performing stocks are dividend stocks.

Cash is king in a recession, so for investors to be able to receive an attractive dividend and help grow their cash position is a major benefit.

Dividend yields tend to be higher in utility stocks than most consumer defensive stocks, giving utility stocks another essential advantage over other defensive TSX stocks.

Bottom line

When it comes to investing, the current environment requires a careful balance. Where investors buy both defensive stocks and at the same time, take advantage of the opportunities in high-quality companies trading at dirt-cheap prices.

It's crucial that investors make sure to protect their portfolio to the downside in case we do see a recession.

At the same time, however, you shouldn't pass up some of these TSX stocks. Such stocks are incredibly high quality and great long-term investments — especially when they're trading this cheap.

CATEGORY

1. Coronavirus

2. Dividend Stocks
3. Investing

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1. NYSE:FTS (Fortis Inc.)
2. TSX:CU (Canadian Utilities Limited)
3. TSX:FTS (Fortis Inc.)

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