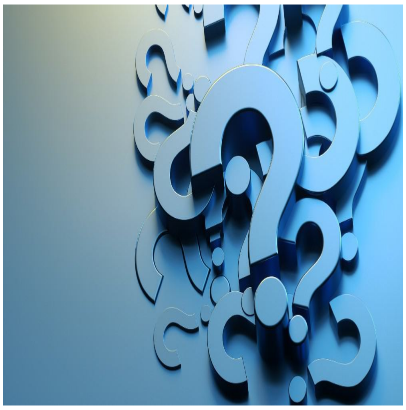

Market Rally: Should I Buy This Defensive Stock?

Description

There's a reason why people invest in grocery stocks. After all, everyone has to eat. These companies are practically utilities in the way they provide food to individuals all over the world.

During the recent crisis, grocery stores have shone in a way that very few other companies have. But with the market ripping once again, should you buy shares in grocers today?

Why grocers thrived

This was a crisis that was practically tailor-made to support grocery stores. For one thing, hoarding items such as toilet paper and packaged foods has certainly driven up earnings. People are afraid — and that fear has led to a boom in sales. Profits in the near term will likely be quite impressive, especially given the fact that sales in most areas have dropped off of a cliff.

Grocery stores are also practically the only place to go nowadays. If you have been sitting at home for a couple of days, it might seem nice to some to go for a pleasant stroll around the aisles of your local grocery outlet. There is nothing, literally nothing else to do at the moment so some people might consider this to be quite an outing.

While there is the possibility that these stocks may pull back a bit if the market recovers, it is still a good choice to own some shares of a large grocery retailer. Buying a few shares today could be a good choice if you expect further weakness in stocks and the economy going forward.

One prime example

Loblaw Co. (TSX:L) is a prime example of this trend toward grocery stores in this time of crisis. When other stocks were cut in half, Loblaws barely budged. The stock is currently trading near its all-time high of about $77 a share. This demonstrates the reliability of these stocks in hard times, with this particularly difficult time being especially beneficial.

It will be interesting to see the first quarter results of 2019, which will give a true picture of how well the grocer fared in this difficult period. Even the Q4 2019 weren't bad, though, handily beating inflation with revenue growth of 3.1% year-over-year.

Operating income increased by 21.6% over the same period and adjusted EBITDA by 34.6% Net earnings, a much better indicator of profitability in my mind, also increased by a solid 14.8%.

The company also generated $272 million in free cash flow which should continue to support its 1.73% dividend and even possibly allow dividend growth through this difficult period.

The bottom line

If you already own grocery stocks, I wouldn't sell. It sounds like we're going to be in this position of economic uncertainty for a while, so hang onto these defensives. They have probably served you well over the past month, so just keep holding.

If you don't own any and want to buy a defensive stock, you could buy a half-position and add on weakness. Any good news might drive money away from these stocks, leading to a relatively sharp pullback in the space.

If they do fall, that might be the time to add these stocks. These are defensive, slow growth names. Add them when people are selling them off.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

PARTNER-FEEDS

1. Business Insider
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