A Top Canadian Stock to Buy in This Recession

Description

There is no doubt that Canada is entering a deep economic downturn. The coronavirus pandemic has triggered a global slowdown which many analysts predict will be the worst since the Great Depression.

For investors in stocks, however, that gloomy environment presents a great opportunity to buy some of the top stocks which have become quite cheap.

Buying stocks at a time when there is too much fear in the market is what the world's top investors do — and the science behind this strategy isn't complicated. Warren Buffett, the world's most successful value investors, described this concept in his 2017 annual letter.

"Every decade or so, dark clouds will fill the economic skies, and they will briefly rain gold," Buffett wrote. "When downpours of that sort occur, it's imperative that we rush outdoors carrying washtubs, not teaspoons. And that we will do."

So, if you have some free cash available to make the move, then the best way to invest in this uncertain time is to buy those top stocks which have a wide economic moat, their businesses are essential to our economy, and they have strong balance-sheets to ride through this tough time.

One top stock from Canada that perfectly fits into this category is **Canadian National Railway Co.** (TSX:CNR)(NYSE:CNI). This railroad stock enjoys a unique competitive advantage in the North American economy.

CNR runs a 19,600-mile rail network that spans Canada and mid-America, connecting the Atlantic, the Pacific, and the Gulf of Mexico. This wide economic moat makes CNR a stock with the power to defend its business, while continuing to pursue growth.

Temporary setback

That said, there's no doubt that CNR will suffer a temporary setback to its business when the region is going through one of the worst economic recessions, forcing many companies to go bankrupt. Volumes at Canadian National Rail will be impacted in the coming months as industrial supply chains remain shut down and retail activity drastically reduced.

The weakness, however, is a good opportunity for long-term investors to stash that dividend-paying stock in their portfolio. Apart from these macro issues, however, there's no major threat to its business, and it's well positioned to recover quickly once the pandemic is behind us and the economic rebound takes hold. That's the reason that CNR stock didn't fall as much as other growth stocks have in the current market crash.

Trading at $108.72 at writing, CNR stock is down about 8% this year so far. The **S&P/TSX Composite Index** has fallen about 14% during the same period.

CN Rail announced in November that it planned to lay off 1,600 employees, with CEO JJ Ruest saying last month that more cuts could be coming as global supply chains wobble.

"They already announced they were rightsizing and downsizing – so I don't think the railways are being caught off guard. They were already taking actions months ago," said **DBRS Morningstar** VP of credit ratings Amaury Baudouin.

Another reason I like CNR stock is that it offers a great combination of growth and income. This combination is hard to come by, as the majority of income stocks have passed their growth phase; the main reason investors like them is for a regular income stream. The stock pays $0.575 a share quarterly dividend, yielding 2.12%.

Bottom line

CN Rail is a top Canadian stock to buy at a bargain if you want to take advantage of the current market weakness. The stock is in a good position to recover quickly once the economy is back on track.

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