TSX Stocks: Which Consumer Staples Are a Buy?

Description

Despite the headline news showing markets rallying considerably, the rally doesn't include a wide range of **TSX** stocks. Instead, it has been confined solely to large caps and defensive stocks.

After the market crashed in early March, stocks of all varieties had considerable value. However, it wasn't long before the biggest and best companies started getting bought up.

Since then, any stocks that investors can rely on have been bid up. Meanwhile, small-cap stocks and those in consumer-sensitive industries have lagged behind.

This suggests that although market indices make it look like there is a rally, most investors are repositioning their portfolio for more pain to come.

What should investors do now?

Investors should be using this opportunity to shore up their portfolios. The coronavirus will be with us for a while, impacting the economy for many months. In addition, the Canadian economy was already vulnerable to a recession before any of this hit.

Consumer debt has been at all-time highs, and with interest rates already extremely low, it's looking like a recession this year is highly likely.

This heightened risk of a recession only increases the urgency of buying defensive TSX stocks.

Defensive TSX stocks in this market rally

The trouble with buying defensive stocks today is that they've been appreciating considerably for the last six weeks, so investors need to do their research thoroughly to find the companies with the best value.

Not only do we want to find defensive stocks that are still trading undervalue, but we also want to find dividend payers that can return cash.

TSX stock to buy today

One of the top defensive stocks to buy today is the **North West Company Inc** (TSX:NWC). I wrote about the value of North West shares just a couple of months ago. Since then, the stock has rallied roughly 25%, although there is still considerable potential for the shares.

North West is a consumer defensive business. The company owns supermarkets in remote regions in Northern Canada, Western Canada, the Caribbean, and Alaska.

Because the company sells household items, food, and other essential goods, there shouldn't be a significant impact on its business.

Regardless of the economic environment, however, people need to eat and need their essentials, which is why consumer staple stocks are a great defensive business.

In addition to protecting your capital, North West also offers a significant dividend. As of midday Monday, North West's dividend was yielding roughly 5%.

Additionally, 5% is a pretty significant dividend yield for a defensive stock protecting your money. Furthermore, in comparison to other consumer staples businesses, that's one of the highest dividends on the TSX.

There is still capital gains potential in the defensive TSX stock too. North West is currently trading at just 15.5 times its trailing earnings as compared with a five-year average price to earnings of 19 times.

Looking at its past valuation and applying that to its trailing earnings suggests that North West could get to at least $32 a share. And if investors' appetite for more defensive businesses continues to grow, North West could potentially move a lot higher.

Bottom line

In this current environment, investors should be doing everything possible to strengthen the resiliency of their portfolios. When looking for defensive stocks to buy today, there's no denying that North West is one of the most attractive stocks on the TSX.

CATEGORY

1. Coronavirus
2. Dividend Stocks
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1. TSX:NWC (The North West Company Inc.)

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