



2 Defensive TSX Stocks With Significant Upside

Description

In the current market environment, one of the best investments you can make is in a defensive **TSX** stock. There is still significant uncertainty in markets and economies globally as we deal with the [coronavirus pandemic](#).

Because of this, defensive TSX stocks represent great investments due to the reliability they can provide. The stocks will hold up better in selloffs and the cash flow they earn for shareholders will remain robust.

This makes defensive companies great investments today, especially if they pay an attractive dividend. The only issue is that with so much demand for defensive investments, many defensive TSX stocks are trading at or near fair value.

However, not all defensive companies are trading at that overvalued level. Two stable businesses that still have significant upside are **North West Company Inc** ([TSX:NWC](#)) and **TransAlta Corp** ([TSX:TA](#)) ([NYSE:TAC](#)).

A consumer staple TSX stock

North West is a consumer staple TSX stock that provides household goods, groceries, and other essential services to remote communities in Northern and Western Canada, Alaska, and the Caribbean.

However, unlike many of its consumer staple peers, the stock is still significantly undervalued and provides an attractive yield.

As of Friday's close, the stock had a dividend yield north of 5.1%. Furthermore, it was trading at a trailing price to earnings of 15.2 times — a significant discount to the 19 times price to earnings ratio average of its three main competitors.

Furthermore, in several of the areas in which North West operates, it has no competition, and with the recent work to vertically integrate its business model, the company has built itself a significant

competitive advantage.

Going forward, North West should be able to improve its margins and vastly increase the profitability of its company, all while it continues to grow organically.

And at the stock's current trading price, it easily has more than 20% upside in the next year, on top of its 5% dividend. This major potential is what makes it the most attractive consumer staple stock on the TSX today.

Power generating TSX stock

TransAlta is one of the cheapest defensive TSX stocks to buy today. At these prices, the shares are trading more than 30% off the 52-week high.

The company has already reaffirmed its guidance for cash flow this year. As of the first quarter, management expects to be somewhere in the middle of its cash flow range of \$325 to \$375 million, giving it a price to free cash flow ratio of roughly 6.3 times, an incredible valuation.

One reason why TransAlta had been sold off is due to lower than previously expected prices for power in Alberta. TransAlta, however, has roughly three-quarters of its Alberta baseload hedged for 2020.

This prudent move by management is the reasons it can be comfortable reaffirming guidance since almost all of the company's cash flow should remain stable and predictable for at least the rest of 2020.

Financially, the power generating TSX stock also has considerable liquidity, with more than \$350 million in cash and over \$1.5 billion in available liquidity. Plus it pays a stable dividend that yields roughly 2.2%.

More important, though, the shares are well undervalued, which will be a big catalyst going forward.

It's also one of the reasons why **Brookfield** (TSX:BAM.A)([NYSE:BAM](#)) has been increasing its stake in TransAlta.

[Brookfield](#) is one of the best investment companies in the world. The company is known for its high-quality investments and impressive track record. So you know if Brookfield is buying it, TransAlta is held in high regard.

Bottom line

Both these businesses are highly reliable, especially in our current market environment. In addition to being stable companies, they also provide major growth potential for investors buying today.

So don't wait too long to buy these TSX stocks, the discount may not last forever.

CATEGORY

1. Coronavirus
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TICKERS GLOBAL

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2. NYSE:TAC (TransAlta Corporation)
3. TSX:BN (Brookfield)
4. TSX:NWC (The North West Company Inc.)
5. TSX:TA (TransAlta Corporation)

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Date

2025/08/15

Date Created

2020/05/25

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