Is There Any Such Thing as a Cheap, Safe Dividend Stock?

Description

Investors are seeking defensive stocks that meet an array of dividend and value criteria. But how realistic are these expectations? From fast-food stocks to agricultural input plays, the consumer staples space has some appealing picks. But could any of them be called cheap? Let's take a look at this major defensive theme and identify the best way to play it for value.

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Sustainability is key to food stocks

A drive to reopen industries amid a slew of vaccine headlines has the bears buying into equities. Markets are rallying, increasing the risk of a subsequent crash. No wonder cautious investors are looking at sustainable plays in the consumer staples space. One way to invest is to aim for growth markets, such as alternative proteins.

Much has been made of **Beyond Meat's** alternatives to beef. But meat-free pork adds an extra dimension to the alternative protein market. While Impossible Foods already supplies burger patties, the faux pork market could serve up huge upside. An investment in **Restaurant Brands** (TSX:QSR)(NYSE:QSR) brings exposure to both of these alt-meat names. It's also a reliably defensive, low-volatility stock with a 3.9% dividend yield.

Some negative press had been floating around Restaurant Brands in the last couple of years. However, while that was more of an issue during a bull market, it became less so during the coronavirus outbreak. The early designation of businesses like Tim Hortons as essential helped to bolster their popularity, and negative PR became less of a concern.

Despite its steadfast popularity and ubiquitous presence across Canada (and beyond), knocking Tim Hortons is something of a Canadian pastime. But Tim Hortons has cornered the market for cheap coffee and bread-related snacks, and that makes for the kernel of a strong consumer staples investment. Throw in the market-disrupting upside of alt-meat, and you have a seemingly solid buy.

But that upside potential — consider a projected 74% total returns by 2025, for instance — is baked into Restaurant Brands's share price. Look at its market ratios, such as a high P/E of 23 times earnings or a P/B of 7.3 times book. Neither signifies a stock trading at its fair value.

A better-priced play for income investors

Investors looking for a more holistic pick should consider the fairly valued **Nutrien** (TSX:NTR)(NYSE:NTR). This is a play in a similar space, since Nutrien also belongs in the "bread basket" section of the TSX. A consumer staples play that takes safety to its source, Nutrien is a globally significant producer of agri inputs.

There's also growth potential here, as Nutrien taps into a trend towards precision farming aimed at reducing waste and optimizing harvests. Developing countries looking for ways to maximize their agricultural output are looking to precision farming. Nutrien is well placed to capitalize in the long term.

Nutrien's market ratios are both sane and appealing, trading below its book price, despite a year of massive earnings growth. Its dividend yield is correspondingly attractive at 5.5%. In most areas except outlook, Nutrien beats Restaurant Brands. This makes the agri materials stock the overall better play for a mix of passive income, defensiveness, and value.

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