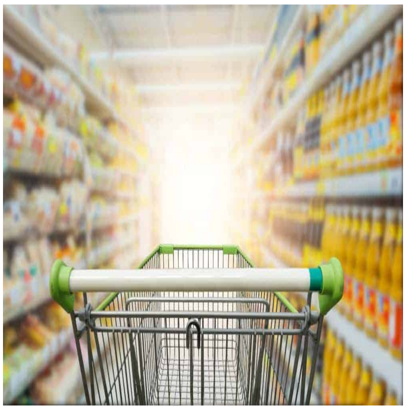

Should You Buy Loblaw Stock Right Now?

Description

Imagine that you're investing in stocks for the first time. You're putting together a raft of top tickers that you can buy once and forget about. Which names would you buy if you knew that a recession was coming? Chances are you'd buy defensive stocks — the kinds of stocks that have already proven their resilience during the pandemic. But what if a more complicated recession lay ahead? Let's explore the options.

Diversification plus passive income

Investors who know their defensive stocks know **Loblaw Companies** (TSX:L). It's a strongly diversified name. It pays a 1.8% dividend well covered by a 41% payout ratio. And while valuation metrics could be more enticing, this name is powerfully varied across outlets. Consumers know the grocery empire variously as Loblaws, No Frills, Valu-Mart, Real Canadian Superstore, and Shoppers Drug Mart.

However, its Q2 contained a couple of nasty surprises, with the pandemic weighing on profits. Never mind rocketing grocery sales; paying staff bonuses turned out to have a deleterious effect on Loblaw's bottom line. Same-store sales growth of 10% was offset by $180 million in pay bonuses.

Seeing a continuation of certain pandemic stressors, Loblaw has laid out its focus going forwards: "The company expects continued growth in its e-commerce business and is investing to expand capacity and enhance its same-day service offering while also improving the cost structure of the business over time." Investors may want to take their own inventory, though. Down 1.5% this week, deeper value could be forthcoming.

A top consumer staples stock for a double dip

Food stocks are nevertheless sound investments right now. Think about pairing the diversified Loblaw with a pure-play consumer staples input stock like **Nutrien** (TSX:NTR)(NYSE:NTR). It's illustrative of the economy at large that both of our largest rail operators leaned into agricultural shipments to get through a tough second quarter. Bulk freight of potash, fertilizer, and grain helped **CN Rail** and **Canadian Pacific** turn in acceptable, if thoroughly chewed up, Q2 reports.

Investors have undoubtedly rewarded one rail operator more than another in the last 12 months. While CP is up by 18.5% year over year, CN Rail has gained 8.3%. But both have a Q2 consumer staples focus in common. Canadians concerned about a recession may alternatively consider buying Nutrien stock as a better-valued alternative. Down 35% in 12 months, this overlooked name is a high-quality bargain.

Perhaps investors should look to our duopoly of rail operators for inspiration. As a mirror onto our economy as a whole, CN Rail and Canadian Pacific can offer a glimpse into major industrial trends. It should be instructive, then, to note that during this year's second quarter, both names leaned into agri shipments. Moving extra grain, potash, and fertilizer, Canada's rail networks were on much the same track as Nutrien.

Buying shares in both Loblaw and Nutrien can help add some defensive backbone to a TSX portfolio. Alternatively, if investing in a single stock, Nutrien covers the consumer staples space single-handedly as a pure-play on agri inputs. It also pays a rich 5.5% dividend. Either way, with a potential double-dip recession looming, consumer staples remain solid long-term investments.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:L (Loblaw Companies Limited)
3. TSX:NTR (Nutrien)

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