



Market Crash: Protect Your Portfolio with These 3 Defensive Bets

Description

Supported by stimulus from the government and the central bank, the Canadian equity market has been on an impressive run since bottoming out in March. High liquidity had eclipsed the underlining weak economic indicators, driving the stocks and their valuations higher.

However, yesterday, the **S&P/TSX Composite Index** fell 1.5%, as the fundamentals beginning to take prominence. The tech stocks, which had surged in the last few months, saw a sharp correction. Meanwhile, given the economic risks associated with the outbreak of COVID-19 and geopolitical tensions, the market could further correct.

So, here are the three defensive bets which can stand tall in case of a market crash.

Dollarama

My first pick is **Dollarama** ([TSX:DOL](#)), the largest discount retailer in Canada. Through its compelling value and extensive presence in Canada, the company has been able to drive its top- and bottom-line consistently over the years. These strong fundamentals have supported the rally in its stock price. Since going public in October 2009, the company has delivered over 1,400% of returns.

Meanwhile, the company's stock is up 14% for the year. Yesterday, amid the weakness in the broader equity markets, the company fared well, by just falling 0.8%.

Due to its value proposition, Dollarama could continue to attract customers, even during the economic downturn, as customers will be looking to cut their expenses amid dwindling incomes. In its recently completed quarter, the company [reported revenue growth of 7.1%](#), with its comparable sales rising by 5.4%.

The expertise in direct sourcing and its long-standing relationship with low-cost producers provide the company an edge over its peers. So, given its ability to perform well even in economic downturns, competitive advantage, and stable earnings, I think [Dollarama could be an excellent defensive bet](#).

Fortis

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) is my second pick, which runs a rate-regulated electric utility business. The regulatory mechanism protects 63% of its annual revenue, while residential consumption generates 19% of its revenue. So, the recession will not have much impact on the company's financials.

Despite the slowdown in economic activities amid the pandemic, the company's adjusted EPS grew 3.7% in its recent quarter. It generated \$94 million of cash from its operations, driven by the increase in the rate base of its regulated utilities. The company's liquidity position looks strong, with its cash and cash equivalents at \$380 million and underutilized credit facility of \$4.8 billion at the end of the quarter.

Meanwhile, the company has reiterated its long-term outlook despite the uncertainty due to the pandemic. It expects to hike its rate base from \$28 billion at the end of last year to \$38.4 billion by 2024, which could drive its earnings in the foreseeable future.

Along with capital protection, the company also offers a healthy dividend yield of 3.64%. Further, the company has planned to raise its dividends by 6% every year until 2024. So, I believe Fortis is a good buy in a recession environment.

BCE

With telecommunication has become an essential service now, my third pick would be **BCE** ([TSX:BCE](#))([NYSE:BCE](#)), which trades 6.3% lower for the year. With people shifting toward working and learnings from their homes, the need for BCE's service could rise. In June, the company had launched its 5G network in five markets. It is also looking at expanding the 5G service across the country, which provides immense growth potential.

Despite the impact of COVID-19, the company's operating cash flows increased by 22.4% on a year-over-year basis to \$2.56 billion. At the end of the quarter, the company's liquidity stood at \$5.4 billion. So, the company is well equipped not only to ride out the crisis but also to fund its growth initiatives.

Meanwhile, the company also rewards its shareholders with dividends. It has increased its dividends at a CAGR of 6.4% since 2015. Currently, the company's dividend yield stands at a juicy 5.9%. With its strong liquidity and impressive growth prospects, the company's dividends are safe.

So, with its recession-proof business model, strong liquidity, and juicy dividend yield, I believe investors should buy BCE.

CATEGORY

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2. NYSE:FTS (Fortis Inc.)
3. TSX:BCE (BCE Inc.)

4. TSX:DOL (Dollarama Inc.)
5. TSX:FTS (Fortis Inc.)

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Date

2025/08/22

Date Created

2020/09/04

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