2 Consumer Staple TSX Stocks to Buy in Volatile Markets

Description

The Canadian equity markets have witnessed high volatility this month. Rising COVID-19 cases and weak economic indicators are weighing on the markets. Meanwhile, I expect the volatility to continue for the remaining part of this year, given the nervousness ahead of the United States presidential election.

So, given the uncertain outlook, I believe investors should consider buying consumer staples stocks. Due to their defensive business models and stable earnings, consumer staple companies are immune to economic downturns. Meanwhile, here are the top two consumer staple companies to buy right now.

Maple Leaf Foods

Maple Leaf Foods (TSX:MFI), a consumer packaged meat company, is my first pick. Over the last few years, the company has been focusing on expanding its plant-based protein segment, which has impacted its profitability. Meanwhile, the demand for plant-based meat is rising, as customers prefer healthier and more sustainable options, which could act as a tailwind for the company.

Industry experts are projecting the plant-based protein market to reach $25 billion by 2029. Meanwhile, the company's management hopes to make its plant-based protein segment a $3 billion profitable business over the next decade.

In the first two quarters of 2020, the plant-based protein segment has grown its revenue by 34.3% to $107.0 million, higher than its 30% growth guidance for this year. Meanwhile, the segment is yet to become profitable. Its adjusted operating losses stood at $50.3 million.

The company's meat-based protein segment has provided much-needed stability to its earnings. In the first two quarters, its sales grew 9% to $2.02 billion, while its adjusted operating earnings came in at $162.1 million — a year-over-year growth of 37%.

The company's management expects the revenue from its meat-protein segment to rise in the range of mid- to high single digits for this year amid the sustained demand for meat and higher exports to Asia.

Meanwhile, the company is also working on improving efficiency and lowering SG&A expenses to drive its EBITDA.

So, given its defensive business model, strong growth prospects, and improving margins, I think Maple Leaf Foods would be an excellent defensive bet.

Alimentation Couche-Tard

My second pick would be a convenience store operator **Alimentation Couche-Tard** (TSX:ATD.B), which has delivered impressive returns of close to 12% for this year. The company has posted consistent performance over the years through its strong underlining business, extensive store network, and accretive acquisitions.

Since 2004, the company has completed 60 acquisitions, which has increased its store count by 10,200 globally. Acquisitions tend to come at hefty premiums. However, Couche-Tard has completed these deals without compromising on its profitability. Since 2011, the company has increased its EPS at a CAGR of 22%. The growth in the top line and expansion of its EBITDA margins have contributed to its EPS growth.

Backed by these strong fundamental growths, its stock price has increased by over 1,000% in the last 10 years. Meanwhile, the company also pays quarterly dividends. It has announced quarterly dividends of $0.07 per share. So, its dividend yield currently stands at 0.6%, which is on the lower side.

However, the company has been raising its dividends consistently. Since 2011, the company has increased its dividends at a CAGR of 28%.

So, given the company's recession-proof business model and stable earnings growth, Couche-Tard would be a good buy amid the volatile environment.

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