Could Tissue Paper Stocks Make You Filthy Rich?

Description

With another wave of coronavirus to worry about, many investors should seek to take some COVID-19 risks off the table if they've yet to do so already. In prior pieces, I've urged investors to adopt a barbell portfolio that balances the risks brought forth by the COVID-19 pandemic to minimize the odds of holding the bag with a company that could go bankrupt while still benefiting from a relief rally on the timely advent of a vaccine.

There's a difference between de-risking and panic-selling

Indeed, many investors overlooked the pandemic risks on **Air Canada** back when I rang the alarm bell on the name back in January, warning that the sky-high risks not longer justified the potential rewards of the novel coronavirus, which wasn't yet a global pandemic.

While it's tough to throw in the towel after a tonne of damage has already been done to a name, investors should still be inclined to sell if their portfolio is too dependent on the timely elimination of COVID-19 to remain above water. If you're overweight in financials and energy, as the **TSX Index** is, it's better to de-risk and take a hit rather than running the risk of further irrecoverable damage.

Naturally, toilet paper stocks would be the go-to hedge against a worsening of this pandemic. In the face of a second wave, it makes a tonne of sense to trade in your battered junior energy stocks for high-yield toilet paper stocks before what could be another wave of panic-buying and hoarding of tissue products.

Tissue paper: A great way to hedge against another round of COVID-19 shutdowns

Such panic-buying of toilet paper is merely a pull-forward in demand, rather than an increased appetite for such products. However, such an operating cash flow boost further bolsters the strength of a dividend payout. Toilet paper stocks like **KP Tissue** (TSX:KPT) aren't going to make you rich. But they will help you stay (relatively) rich if a worst-case scenario unfolds with this pandemic and can inject some certainty into your portfolio if we are due for a lengthening of the "new normal" that sees intermittent economic shutdowns depending on the severity of outbreaks in certain areas.

Even if this pandemic were to drag on through 2022, KPT stock is still unlikely to enrich you. Shares of the tissue-product maker can help form a foundation for your portfolio and keep it buoyed once the market waters get rougher. In this kind of environment, safe, handsome dividend payouts and certainty will be in high demand. And that leads me to believe that KPT stock could be poised to rally in the face of the next market sell-off.

Today, KPT stock is flirting with 52-week highs, as the rest of the market is hovering close to correction territory. Although KPT sold off back in the cash-crunching market crash back in February and March, I think KPT is more likely to be negatively correlated to the broader TSX Index in the next round of COVID-induced selling. KP boasts a decent liquidity position and an operating cash flow stream that's so resilient that I wouldn't at all be surprised if the company hikes its dividend at a time when dividend cuts become the norm.

Foolish takeaway

At the time of writing, shares of KPT yield 5.4%. The yield isn't nearly as bountiful as it was back in March, but it's still worthy of scooping up if you're looking to de-risk and hedge against further economic damage from this horrific pandemic. While the stock can't make you rich, it can help you bring your portfolio back into balance, which should enable you a better shot at outperforming this choppy market.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. TSX:KPT (KP Tissue Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks

3. Investing
4. Stocks for Beginners

Date
2025/07/21
Date Created
2020/09/29
Author
joefrenette