



3 Defensive Bets to Buy Amid an Uncertain Environment

Description

With the United States Presidential election just one month away, I expect the equity markets to be highly volatile. Also, the high unemployment rate and rising COVID-19 cases across the world could create headwinds for the markets. So, it is better to go defensive.

Here are the three companies which have delivered consistent performance over the years and are also immune to economic downturns.

Waste Connections

Waste Connections ([TSX:WCN](#))([NYSE:WCN](#)) is my first pick. The company collects, transfers, and recycles non-hazardous wastes in the United States and Canada. It has delivered impressive performance over the last few years. Its top-line has grown at a compound annual growth rate (CAGR) of 26% in the previous four years, driven by strong underlining business and acquisitions. Further, it operates in rural and secondary markets, which has helped the company acquire significant market share and maintain its higher margins.

In the first [two quarters of this year](#), the company's revenue has increased by 1.7% despite the pandemic-infused slowdown. Its adjusted EBITDA margin contracted from 31% to 30.2%. However, its July volumes showed significant improvement as economic activities began to rise after the lockdown.

This year, the company has made seven acquisitions, which would contribute US\$60 million to its revenue annually. Also, it is working on completing the acquisition of another collection and recycling company, which could add another US\$40 million every year. So, the company's growth prospects are healthy.

Given its impressive margins, higher growth prospects, and the essential nature of its business, [I believe Waste Connections is an excellent buy](#) in this uncertain environment.

Fortis

My second pick would be **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)). The electric utility company earns 99% of its earnings from its rate-regulated utility businesses, proving stability to its earnings and cash flows. Supported by the growth in its rate base, the company's adjusted EBITDA increased by 3.7% during its recently completed quarter, while generating \$94 million of cash from its operations.

Further, the company projects its rate base to increase at a CAGR of 6.5% to \$38.4 billion by 2024, supporting its future cash flows and dividend payouts.

Fortis has been increasing its dividends for the past 47 years. Currently, its dividend yield stands at 3.4%. Although it is on the lower side, the management hopes to raise its dividends by 6% annually until 2024. So, you can earn above-average dividends in the future. Given its recession-proof business model and stable cash flows, Fortis is an excellent defensive bet.

Alimentation Couche-Tard

My third pick would be **Alimentation Couche-Tard** (TSX:ATD.B), which has returned over 1,050% in the last decade. The strong fundamentals have supported its stock price rally. Driven by its strong underlining business, extensive store network, and accretive acquisitions, the company's EPS has grown at a CAGR of 22% since 2011. The company has made 60 acquisitions since 2004, which have added approximately 10,200 stores.

In its recently completed quarter, the company's adjusted EPS grew 47% despite the pandemic's impact. It also generated approximately US\$1.35 billion from its operating activities, raising its cash and cash equivalents to US\$3.27 billion by the end of the quarter.

Despite its aggressive expansion, the company has captured only 5% of the market share in the United States. So, the company has significant scope for expansion. Given the non-cyclic nature of its business and high growth potential, I am bullish on Couche-Tard.

CATEGORY

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2. NYSE:WCN (Waste Connections)
3. TSX:FTS (Fortis Inc.)
4. TSX:WCN (Waste Connections)

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