3 Defensive Retail Stocks for Your TFSA

Description

Later this week 2020 will finally come to an end. As unprecedented and volatile as the year was, 2021 could be just as volatile, if not more. In fact, many pundits now believe the recent rally will give way to a harsh correction in the new year. To counter that volatility, it's always a good idea to have one or more defensive stocks in your portfolio. Today we'll take a look at a rare mix of defensive retail stocks.

Buying groceries can make you rich

Grocery stores remain one of the few areas where the retail-apocalypse hasn't penetrated fully yet. This is because selecting fresh, perishable goods that are often fragile remains something that we prefer to do in person. That said, the COVID-19 pandemic has accelerated the shift towards online grocery ordering and delivery services.

That's just one reason why grocery stocks such as **Metro** (TSX:MRU) make great defensive investment options. The grocery and pharma behemoth operates a network of over 950 stores under a variety of different brands.

Why invest in Metro now? Well, people have to eat. Even in the face of the worst public health crisis in a century, Metro remained open throughout the pandemic. In fact, the company posted strong results in the most recent quarter, including an 11% bump in net earnings to $186.5 million.

Adding to that appeal is a 26-year history of consecutive annual bumps to its dividend. The current yield provides a respectable 1.57% yield.

In short, Metro is a great defensive retail stock for your portfolio.

Gas up your car and buy some milk

When was the last time you bought something at a convenience store? Would you consider that as a good investment? **Alimentation Couche-Tard** (TSX:ATD.B) is one of the largest owners of gas stations and convenience stores on the planet.

Couche-Tard's position was largely fueled by an aggressive stance towards expansion. Couche-Tard's previous acquisitions are well-known examples of providing significant cost synergies while also branching out to new markets.

Apart from operating a stable and necessary business, Couche-Tard has a $6 billion war chest ready for more acquisitions. If the market does slow down and Couche-Tard expands further, you'll be disappointed you didn't buy this defensive retail stock.

How about a dollar-store stock?

Dollar stores are unique. When an economic slowdown hits, dollar stores actually see increased sales as customers flock to the stores for bargains. And no mention of dollar stores would be complete without making a reference to **Dollarama** (TSX:DOL).

Dollarama is the largest dollar store operator in Canada. Like the other companies noted above, Dollarama has soared in recent months, despite the ongoing pandemic. By way of example, in the most recent quarter, same-store sales increased by 7.1%, while sales saw a 12.3% increase to $1,064.2 million.

One final point to note that helps Dollarama is the surging loonie. Dollarama imports most of its goods, and a surging loonie increases the buying power of the company, which means the company can buy more of the same goods, or opt for higher quality goods at the same price point.

Buy these defensive retail stocks

All stocks come with risk. As we head into the final moments of the most volatile year ever, it's important to balance out that risk. The defensive retail stocks noted here can help offset some of that risk.

CATEGORY

1. Investing

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1. TSX:DOL (Dollarama Inc.)
2. TSX:MRU (Metro Inc.)

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