4 Defensive Stocks to Protect Against a Market Pullback

Description

Amid the expectation of demand recovery and improvement in corporate profits, the Canadian equity markets continue to rise, with the **S&P/TSX Composite Index** hitting a new all-time high yesterday. However, few industry experts think that the market has become overly optimistic, given the high valuations and rising COVID-19 cases. Meanwhile, if you are one among them and expect the markets to be volatile in the near term, you can strengthen your portfolio by buying the following four defensive stocks.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) operates a highly regulated and diversified utility business, serving around 3.3 million customers. The company earns approximately 83% of its revenue from residential sales or is protected by regulated mechanisms, providing stability to its financials. The stable cash flows have allowed the company to increase its dividends for 47 consecutive years. Further, the company has delivered average total shareholder returns of 13% per annum over the last 20 years.

Meanwhile, Fortis's management will be investing around $19.6 billion over the next five years, growing its rate base at an annualized growth rate of 6%. The rate base growth could drive the company's earnings and cash flows. So, given its low-risk business, impressive track record, and healthy growth prospects, I believe Fortis is an excellent defensive bet.

Waste Connections

Waste Connections (TSX:WCN)(NYSE:WCN) is involved in collecting, transferring, and disposal of solid wastes, along with recycling and renewable fuels generation. The demand for the company's services could sustain even during an economic downturn, given its business nature. Meanwhile, Waste Connections operates in secondary or exclusive markets, which allows it to maintain its higher margins. Also, most of its disposable sites are close to waste streams, reducing transportation expenses.

Further, the company's management has provided promising 2021 guidance, with its revenue and net income projected to grow at 6.5% and 18%, respectively. Further, the management is also hopeful of generating free cash flows of $950 million. So, Waste Connections could be an excellent buy in this volatile environment. The company also pays quarterly dividends, with its forward yield standing at 0.6%.

Canadian National Railway

My third pick would be **Canadian National Railway** (TSX:CNR)(NYSE:CNI), a Canadian railroad company, which transports around $250 billion worth of goods each year. Despite the pandemic, its top line grew 2% in its recently announced fourth quarter while its adjusted EPS increased by 14%. Increased shipment of grains, higher international container traffic, and higher freight rates drove its financials.

Meanwhile, the demand for the company's services could increase in 2021 amid economic expansion. The company is also investing around $3 billion to strengthen its operations. The management expects its adjusted EPS to grow at a high single-digit range this year while generating free cash flows in the range of $3.0-$3.3 billion. So, the company's growth prospects look healthy. Meanwhile, the company has rewarded its shareholders by raising its dividends for the last 25 consecutive years. Currently, the company pays quarterly dividends of $0.5750, with its forward dividend yield standing at 1.6%.

Telus

My final pick would be **Telus** (TSX:T)(NYSE:TU), one of Canada's three top telecommunication service providers. Despite the pandemic, the company had reported strong fourth-quarter performance by adding 253,000 new connections while its revenue grew by 5.2%. Meanwhile, Telus is also investing in expanding its fibre-optic broadband network and roll out a 5G network across Canada.

Along with these investments, the recovery in economic activities could drive the company's financials this year. Telus's management expects its revenue to grow by 8-10%, while its adjusted EBITDA could increase by 6-8%. The company could generate a free cash flow of $1.5 billion. Given its recession-proof business model and healthy growth prospects, I believe Telus could strengthen your portfolio. It also pays quarterly dividends, with its dividend yield currently standing at 4.7%.

CATEGORY

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)

2. NYSE:FTS (Fortis Inc.)
3. NYSE:TU (TELUS)
4. NYSE:WCN (Waste Connections)
5. TSX:CNR (Canadian National Railway Company)
6. TSX:FTS (Fortis Inc.)
7. TSX:T (TELUS)
8. TSX:WCN (Waste Connections)

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