1 Canadian Defensive Stock to Buy for 2021 and 2022

Description

Many pundits agree that the stock market is getting a tad on the frothy side. Numerous metrics, including the CAPE ratio and the Warren Buffett Indicator, are at exorbitant highs. Regardless, I think that such metrics ought to be taken with a grain of salt in the current market environment.

They're great supplements to any analysis, but they're not a crystal ball that can help investors time the markets over the near to medium term. Nobody, not even the great Oracle of Omaha, has any idea where the markets are headed next. That's why it's a wise move to systematically invest any extra cash, especially with a potential uptick in the rate of inflation.

Indeed, it's tough to be an investor these days, with rock-bottom bond yields and the threat of inflation right around the corner. So-called risky securities may be the ones that are less risky than their "risk-free" counterparts.

Pick your spots carefully

While there are prominent pockets of severe overvaluation out there, most notably in EV stocks and cryptocurrencies, I think today's self-guided investors can steer clear of the pitfalls, as they look to scoop up the beaten-down value, cyclical, and reopening stocks that could continue to outshine "sexy" growth stocks for the next year or two, as investors inch ever so closer to that dreaded rising-rate environment.

In this piece, we'll have a look at a Canadian defensive dividend stock that I think could outshine its peers in 2021 and 2022.

Telus: A top defensive dividend stock for the next two years

At current levels, **Telus** (TSX:T)(NYSE:TU) is one of my favourite ways to play defence in the early innings of the Roaring 2020s.

Telus is a telecom titan that demonstrated incredible resilience through the worst of 2020. The company actually managed to add to its mobile and broadband business at a rate far faster than its peers in the Canadian telecom scene. The company is coming off another stellar quarter (Q1), with revenues up an outstanding 9% year over year, despite coronavirus pressures that weighed on margins.

The company is pulling way ahead of its peers in the wireline business, a trend I suspect will continue into the post-COVID world. As higher-margin wireless roaming revenues recover once people start travelling again, I expect considerable margin expansion, all while the firm starts feeling the positive impact of a potential 5G boom. The demand for 5G-enabled products is poised to increase, and with an aggressive capital-spending plan, the top-performing telecom could pull further ahead of its peers in wireless.

Firing on all cylinders

The stock trades at 28.6 times earnings and 2.1 times sales, with shares within 4% of hitting all-time highs. Telus doesn't look like a cheap stock, while its peers are still off considerably from their highs.

Given Telus's relative outperformance, its wireline momentum and great positioning ahead of the 5G boom, I'd say Telus is one of the more expensive industry players that are well worth paying up for. Telus is firing on all cylinders, and I see it taking share from its rivals in 2021 and 2022. With no media segment dragging it down and a reputation for having the best customer service and network quality in Canada, I wouldn't want to bet against the name as it enters what could be a very prosperous period.

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