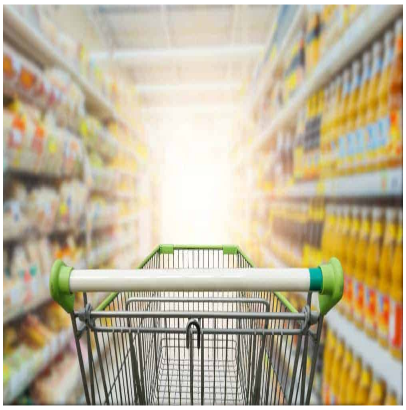

Afraid of Inflation? Buy This Top Value Stock!

Description

For the first time in 10 years, inflation exceeded the upper limit of the Bank of Canada's target rate in April, fueling fears of a sustained return to inflation. When inflation increases, purchasing power decreases, and each dollar can buy fewer goods and services, so it's a cause of concern.

Prices level as measured by the Consumer Price Index (CPI) rose from an annual rate of 2.2% in March to 3.4% in April, Statistics Canada reported last week.

The rebound in inflation was expected, but it still exceeded analysts' expectations.

Will high inflation last?

The question that has haunted the markets for several weeks now is whether an inflationary spiral is looming over us or whether the big comeback in inflation will be temporary, as the governor of the Bank of Canada and the chairman of the U.S. Federal Reserve have assured. Among specialists, opinions differ.

Whether high inflation lasts or not, it's best to be prepared. Buying high-quality value stocks will give you some protection against inflation, as they usually do better during inflationary periods than growth stocks.

This is because these companies are often in industries, such as finance and consumer staples, that are less hit by inflation. Indeed, they have more pricing power and are able to raise their prices with inflation better than other industries.

A defensive stock to beat inflation

One such company is **Metro** (TSX: MRU). This defensive stock could help protect your portfolio against inflation.

Metro is one of the three largest Canadian supermarkets and grocery players.

The company has two main businesses: food and pharmacy. It has seven brands and 950 stores as part of its food business, and 650 pharmacies and five brands in its pharmacy business segment.

Besides its performance, the nature of its underlying business makes Metro a good buy in any circumstance. Indeed, food and medicine are two things that people will always need. Plus, Metro can raise its prices when inflation rises, so it is not that much impacted by rising inflation.

The retail space is one that many believe is ripe for continued long-term growth. Additionally, retail grocery is one of those sectors that has held up much better than others during the recent downturn just over a year ago.

Strong e-commerce growth

Metro is innovating in the e-commerce space. The grocer's online sales nearly tripled at a rate of 240% year over year. Unlike other retail stocks that promise e-commerce growth, Metro has adopted a strategy that works. Metro has proven its ability to develop its e-commerce exponentially during the pandemic. In a highly competitive industry, that is impressive.

Indeed, this growth in e-commerce has had an impact on the overall results of the company. The Montreal-based grocery and pharmaceutical chain reported a 5.1% sales increase in the second quarter. However, Metro's comparable-store retail sales increased by almost 6%. Adjusted earnings totalled $0.78 per share.

This is impressive, given the problems the pandemic has created. Metro attributed this growth to improved online capacity and the adoption of digitized systems, such as automatic cash registers and electronic labels. These types of innovations are likely to bring more benefits on the horizon.

In addition, Metro's footprint is impressive. The company plans to expand its existing presence to include nearly 130 new "click-and-collect" stores. With these kinds of growth prospects on the horizon, it's hard to look at the company's previous numbers and think that similar impressive results are not on the horizon.

The company has steadily increased its dividend over the past five years and will likely continue to do so for decades to come.

Plus, this stock trades at a favourable valuation multiple compared to its peers, with a low but significant dividend.

Those looking for stocks to hedge their portfolio against inflation should consider Metro stock today.

CATEGORY

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