The 2 Best Defensive Canadian Stocks to Buy Right Now

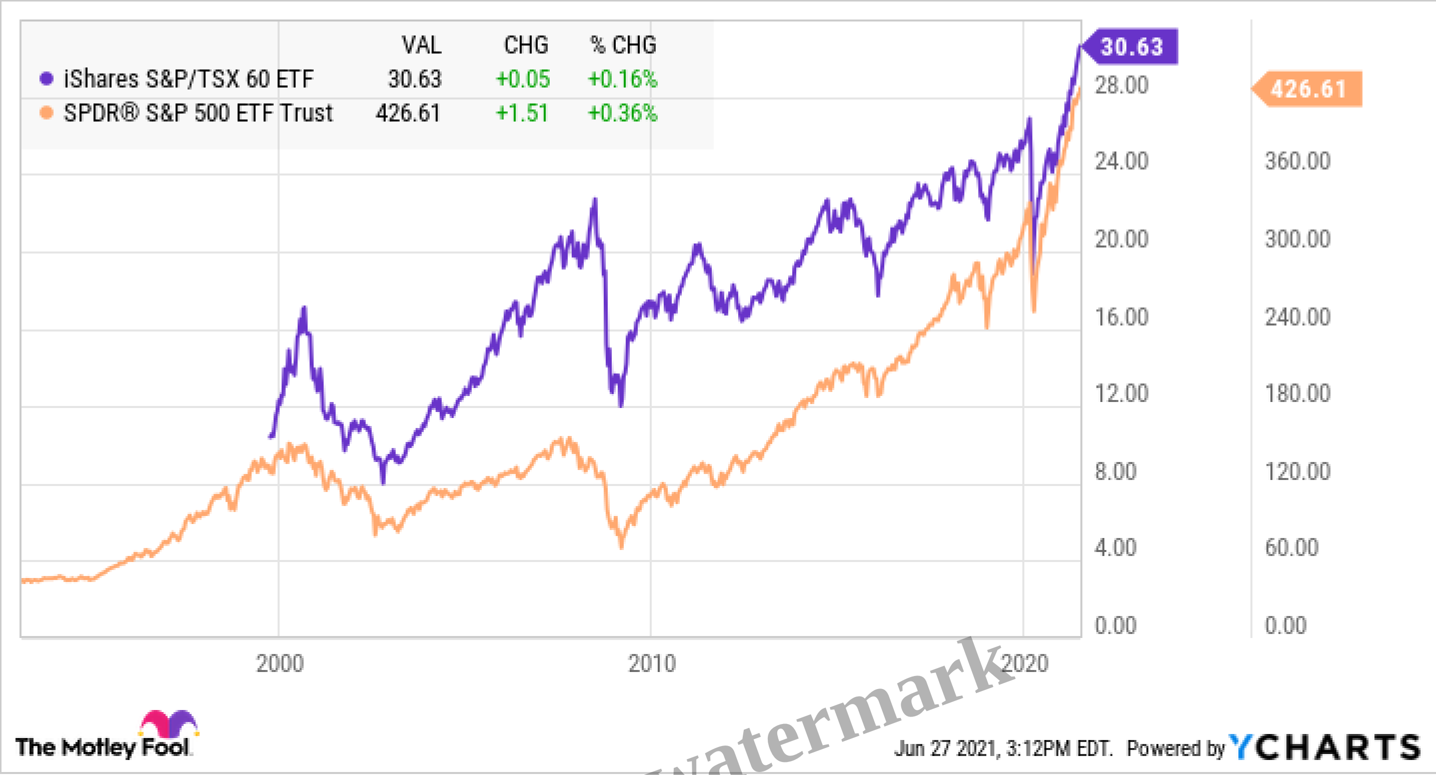
Description

Today's market is one of the most critical periods in history to focus on defensive stock picks, because it appears to be absurdly expensive.

The S&P 500 Shiller cyclically adjusted price-to-earnings (CAPE) ratio suggests the U.S. stock market is trading at its highest valuation in history (second only to the internet bubble)!

S&P 500 Shiller CAPE Ratio data by YCharts.

Note that each peak in the graph was followed by a downturn, some more devastating for investors than others. A look at the chart indicates we could be closer to a peak than not, but there's no way to tell, unless in hindsight.



Data by YCharts.

The Canadian stock market moves in tandem with the U.S. market. So, Canadian stock investors need to tread just as carefully as U.S. stock investors.

Many stocks are now trading at stratospheric valuations. Here are two of the best defensive Canadian stocks to buy right now. They're defensive in the aspects of quality and valuation. Moreover, they all pay a growing dividend!

A cheap Canadian dividend stock

Andrew Peller (TSX:ADW.A) is a quality value stock pick that pays a nice dividend. It is one of the largest wine sellers in Canada that produces and markets quality wines and craft beverage alcohol products.

The company has a list of award-winning premium and ultra-premium Vintners Quality Alliance (VQA) brands, including Trius, Thirty Bench, Wayne Gretzky, Conviction, etc. It also owns and operates about 101 well-positioned independent liquor retail locations in Ontario.

The company's last fiscal year that ended on March 31, 2021, was negatively impacted by the pandemic. However, the results were resilient.

In mid-June, it reported sales up 2.8%, thanks to a resilient and diversified trade channel network and the launch of a new e-commerce platform.

Gross margins dropped a bit to 39.8% versus 43.5% in the prior year. EBITDA grew 2.5% to $63 million. Class A earnings per share increased 18% to $0.65, which implied a payout ratio of about 34%.

Importantly, the stock is undervalued with a 34% margin of safety, which suggests 12-month upside potential of 51%!

Additionally, the company is a Canadian Dividend Aristocrat that has maintained or increased dividends every year since at least 2003. Just this month, management increased its Class A annual dividend by 10% to $0.246, which equates to a starting yield of 2.56%.

Another defensive Canadian stock

Alimentation Couche-Tard (TSX:ATD.B) is another Canadian Dividend Aristocrat with a solid history of growing its dividend. Today, it starts you off with a yield of about 0.8%, but it has been increasing its dividend at an incredible rate. For example, ATD.B's two-year dividend-growth rate is 18%.

It owns, operates, and consolidates convenience stores and roadside fuel retailers. Analysts believe the stock is undervalued by 32% with 47% 12-month upside potential.

For the fiscal year to date, Couche-Tard revenues fell 25% to US$33.5 billion. However, the gross profit rose 6% to US$7.9 billion, operating income climbed 22% to US$2.9 billion, and diluted earnings per share jumped 22% to $1.92.

The company will be reporting its fiscal Q4 and full-year 2021 results after the **TSX** closes today.

The Foolish takeaway

The TSX doesn't provide many consumer defensive sector stock options, as the sector makes up only about 3.5% of the Canadian market. Today, it's a good opportunity to pick up undervalued consumer defensive stocks Andrew Peller and Alimentation Couche-Tard.

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