2 TSX Stocks to Buy as Inflation Surges

Description

Higher inflation has been on the radar for Canadians since the beginning of the year. Initially, the Bank of Canada was focused on alleviating concerns that a surge in fiscal and monetary stimulus would have this impact. However, a spike in oil and gas prices saw inflation really take off in the opening months of the year. Today, I want to discuss that rise and zero-in on two TSX stocks that are worth buying in this environment.

Inflation has climbed to a 10-year high in Canada

In late May, I'd warned investors about this ongoing trend. Statistics Canada unveiled more data on this front last month. Canada's inflation rate rose to 3.6% in May. This represented the fastest inflation pace in a decade.

The cost of shelter climbed 4.2% year over year in May. Much has been made of the rising cost of housing across Canada. Indeed, real estate prices have jumped 30-40% year over year in some of the hottest metropolitan areas. Meanwhile, the cost of furniture and appliances has also increased by 4.4% — the fastest pace for durable goods since 1989.

Predictably, the biggest influence on inflation was rising gasoline prices. Gas jumped 43% from the prior year. However, this is somewhat deceptive, as prices cratered last May in response to sinking demand in the thick of the COVID-19 pandemic.

Why these TSX stocks are perfect in an inflationary environment

Food prices were set to experience an increase in 2021. However, this category only climbed 1.5% in the month of May. In late June, I'd recommended grocery TSX stocks as a premium target in this climate. After all, the Canada Food Price Report in late 2020 projected that food prices would increase between 3% and 5% in 2021.

Metro (TSX:MRU) is a Montreal-based grocery retailer. Its shares have climbed 3.7% in 2021 as of early afternoon trading on July 8. The TSX stock is up 5.4% from the prior year.

The company unveiled its second-quarter fiscal 2021 results on April 21. Sales jumped 5.1% from the prior year to $4.19 billion. Meanwhile, food same-store sales rose 10.1% in the first 10 weeks of the quarter. Adjusted net earnings climbed 6.5% year over year to $194 million.

Shares of Metro possess a solid price-to-earnings (P/E) ratio of 18. Metro offers a quarterly dividend of $0.25 per share. That represents a modest 1.6% yield.

Empire (TSX:EMP.A) is another top food retailer. It owns and operates brands like IGA, Sobeys, and Farm Boy. Shares of this TSX stock have climbed 12% in the year-to-date period. The stock is up 20% from the same time in 2020.

In its Q4 FY2021 earnings report, Empire revealed that same-store sales, excluding fuel dropped 6.1% from Q4 FY2020. Regardless, it was still a positive quarter and a very strong year for Empire. Sales increased $1.68 billion year over year to $28.2 billion for the full year. Meanwhile, gross profit jumped $566 million to $7.19 billion.

This TSX stock last had a favourable P/E ratio of 15. Its annual dividend per share has climbed 15.3%. Empire currently offers a quarterly dividend of $0.15 per share, which represents a 1.5% yield.

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aocallaghan