Forget Evergrande: 1 Top TSX Dividend Stock to Own in a Volatile Market

Description

Market volatility could continue in the coming weeks, as investors worry that the potential collapse of Chinese real estate firm **Evergrande** might trigger a global financial crisis.

Evergrande collapse

Evergrande is China's largest property developer. The company is having trouble making payments on roughly US$300 billion in debt. The problems are due to a drop in property sales caused by a slowdown in the Chinese market and rumours that the company was in trouble. Combined, these factors have led to the current crisis.

In recent days, the concerns spilled over into international markets, causing some pundits to suggest that this might be China's "Lehman Brothers" moment. That's unlikely to be the case. Lehman only owned financial assets that had the potential to be worth nothing. China Evergrande owns hard assets, primarily property, that can be liquidated if needed, and the value is easily determined. The problem is cash flow. If Evergrande can negotiate deals to get funding needed to complete projects, the situation could unwind in a measured way.

Developers run into this situation often; it is just that Evergrande is so large; it's failure would hit a lot of other Chinese businesses as well as the people who placed deposits on unfinished buildings. The Chinese government is fully aware the world is watching the situation and is unlikely to allow Evergrande to fail, although a recent report says Chinese officials might not be in a big hurry to bail out the company.

The risks to the global financial system are likely small. However, the collapse of Evergrande could potentially damage the Chinese economy enough to impact the global economic recovery. This could hit stock markets that are arguably still overbought. Another risk is the fear factor. Stocks rise or fall depending on investor expectations. If enough institutional and retail investors hit the sell button due to worries that an Evergrande failure could trigger a financial crisis, the snowball effect could cause a meaningful market correction, even if reality on the ground is different from the expectation.

The situation is worth watching, and Canadian investors might want to put new money to work in stocks that don't rely on China for revenue and should hold up well in a market correction.

Emera

Emera (TSX:EMA) is a Canadian utility company with $31 billion in assets located in Canada, the United States, and the Caribbean. The businesses distribute electricity and natural gas to residential and commercial customers. These tend to be regulated sectors and revenue is generally predictable and reliable.

Emera is working through a $7.4 billion capital program through 2023 with another $1.2 billion under consideration that could be added to the portfolio. Rate base growth should be at least 7.5% over the next two years. This would boost cash flow enough to support a dividend increases of 4-5% next year.

The stock currently trades near $59 and provide a 4.3% dividend yield.

Homes and businesses need electricity and natural gas to keep the lights on, heat water, and cook food regardless of what is happening in international financial markets. This makes Emera an attractive stock to buy as a defensive position for your portfolio.

The bottom line on the Evergrande collapse

Evergrande is a good reminder for investors that financial shocks can come from unexpected sources, and it makes sense to own a balanced portfolio that has some defensive stocks that pay good dividends and have reliable and predictable revenue streams that hold up in most economic conditions.

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