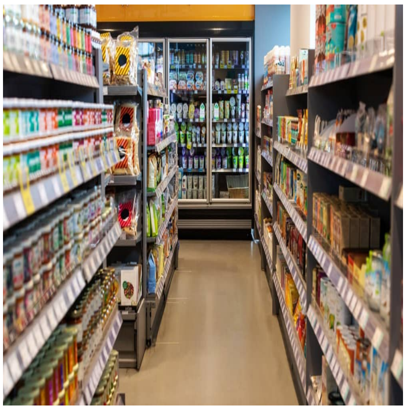

2 TSX Dividend Growth Stocks with Inflation-Protection Potential

Description

People can't be carefree with their money if inflation is spiking to levels not seen in four decades. The Bank of Canada has already warned that elevated inflation would persist in 2022 and extend until 2023. There are lessons to learn in the complex environment today.

The present scenario underscores the need to plan for any eventuality, especially inflationary pressures and a recession. Purchasing power reduces when prices of goods and services are rising to multi-year highs. On the investment side, people don't usually prepare for high inflation when the market is doing good.

Seasoned investors and newbies alike must seek capital protection, first and foremost, from rising inflation. Cash is okay for instant liquidity, but it's not a growth asset, and therefore, lacks the power to cope with inflation. Stocks are good inflation hedges but could suffer in the short term when inflation is soaring.

Look for inflation-protection

Investors are looking for safety nets — havens to park their money in and earn at the same time. Dividend stocks are top-of-mind options because they generate passive income streams. However, you must be selective in choosing dividend-payers because not all have inflation-protection potential.

Metro Inc. (TSX:MRU) and **Fortis** (TSX:FTS)(NYSE:FTS) aren't dividend titans but both stocks are safe assets to own; both provide essential services and boast a track record of profitable operations. The consumer staple stock is as stable as ever, while the utility stock has bond-like features.

Business stability

Metro pays a modest 1.55% dividend ($70.91 per share), although that should be the least of your concerns. The business of this iconic $16.9 billion company will still thrive during economic downturns because food and pharmaceuticals are basic necessities and essentials. In Q2 fiscal 2022, sales and net earnings rose 1.9% and 5.3% versus Q2 fiscal 2021, respectively.

According to its President and CEO, Eric La Flèche, Metro delivered impressive results despite a challenging operating environment due to the Omicron variant and labor shortages throughout the supply chain. While the inflationary pressures are higher-than-normal, Metro has maintained the competitive prices of its quality products.

Management's ongoing concern is the impact on margins if higher-than-normal inflationary pressures and labor shortages extend for a longer period. However, Metro expects food sales to remain relatively stable versus last year while the growth of the pharmacy business would be moderate in the second half of 2022.

Defensive gem

Fortis has always been described by income investors as TSX's defensive gem. Apart from the visible cash flows from highly regulated utility assets, the stock has raised its dividends for 48 consecutive years. If management hikes the payouts this year and in 2023, Fortis will become Canada's second dividend king after **Canadian Utilities**.

Management promises to further raise dividends by an average of 6% annually through 2025. If you invest today, the dividend offer is 3.54% ($60.49 per share). About 3.4 million customers in North America (U.S. and Canada) and the Caribbean depend on this $28.9 billion utility company for electricity and gas. The business should endure and overcome the massive headwinds.

Low-volatile stocks

Current investors are enjoying gains in Metro (+4.9%) and Fortis (+0.8%) year-to-date. Your money should be in good hands in this pair of low-volatility stocks.

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Date
2025/08/28
Date Created
2022/08/04
Author
cliew