After Pandemic Puppies, 2 Pet Retail Stocks to Ride Out a Recession

Description

It's been a rough year, but now is not the time to throw in the towel as an investor, new or seasoned. Instead, it's time to observe the marketplace for any pieces of quality merchandise that are on sale. Indeed, the wealth of Canadians has taken a massive hit this year, and it will surely impact consumer sentiment moving forward. The wealth effect can be quite powerful.

If you've got the liquidity, I'd argue that this 11-month-old bear market is primed for bargain hunters. Sure, there are still stocks out there that may deserve a further beating before they fully factor in the recession-induced damage to come. That said, investors with horizons beyond 10 years must realize that a recession and market plunge are not out of the ordinary. They're to be expected over a long-term timespan. And investors should look to scoop up bargains, rather than searching for a reason not to buy.

When it comes to profitable firms that can continue making money in a recession year, I'd argue they're primed to continue inching higher, even if everything else sinks into the depths.

Value in pet stocks?

Consider the pet retail firms. They're a lot more recession resilient than meets the eye. When times get tough, it isn't Fluffy who has to settle for lower-quality food. Pets are a part of the family, and many owners treat them better than they do themselves! Some folks will axe their grocery budgets before they do Fluffy's. That's why pet retail is a magnificent place to help move your portfolio forward, while almost everything else weighs it down.

In Canada, **Pet Valu Holdings** (TSX:PET) and **Canadian Tire** (TSX:CTC.A) are the top dogs (please forgive the pun) in the pet retail game.

Pet Valu Holdings

Pet Valu is the pet retail pure play that I think is worth every penny of its premium valuation. The stock goes for 26.9 times trailing price to earnings (P/E) after recently hitting a new all-time high just north of $37 per share. Pet Valu is expensive, but it's expensive for a good reason. It can keep delivering for investors, as the economy sinks into a funk.

The $2.61 billion retailer is incredibly well managed and has been able to keep rivals (PetSmart) at bay. Looking ahead, the firm plans to nearly double its store count in the next 15-20 years. Indeed, such a slow-and-steady growth strategy could pay colossal dividends.

For now, PET stock is my top secular growth play to buy, regardless of the market environment. I don't think anything can derail its strategy.

Canadian Tire

Canadian Tire is a big-box retailer that's embraced pet products in recent years. The company brought popular pet product brand Petco to Canadian consumers, and they're loving it. In numerous prior pieces, I've applauded Canadian Tire for partnering up with other firms to bring branded merchandise into stores. Indeed, there are a lot of hot American brands that could use a Canadian home. Canadian Tire's exclusive brand focus is the source of its biggest strength, as it continues to invest heavily in digital retail and loyalty.

The major issue for Canadian Tire as a pet play is that Petco (and other pet products) represent a small slice of the revenue pie. Further, the financial business is seen as a potential source of risk in the face of a recession. At a depressed 8.6 times trailing P/E, I think a lot of the recession risk is baked in already.

In any case, I'm a fan of the Tire's long-term strategy and think pet food is a great attraction to beckon Canadians into its stores.

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