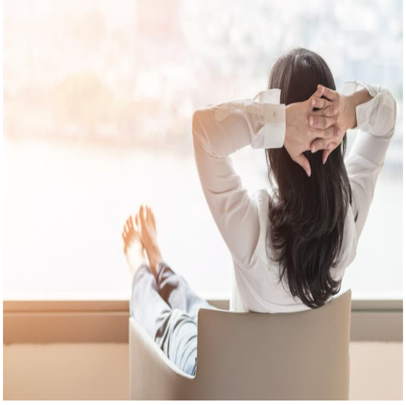

2 Consumer Staples Stocks That Can Give You Upside and Peace of Mind

Description

Market corrections can be scarier for one stock portfolio over another depending on its holdings. For example, in the year-to-date's rising interest rate environment, growth stock portfolios experienced more severe declines than stable dividend stock portfolios.

Among stable dividend stocks are consumer staples stocks like Canadian food stocks **Saputo** (TSX:SAP) and **Empire** (TSX:EMP.A) that can give investors better peace of mind. They're durable businesses that are recession resilient and can provide surer returns in the long run.

Saputo stock

Saputo is a packaged foods company and is one of the top 10 global dairy processors. It produces, markets, and distributes dairy products including cheese, fluid milk, extended shelf-life milk and cream products, cultured products, and dairy ingredients to more than 60 countries. For example, it's a cheese manufacturing leader as well as process fluid milk and cream in Canada.

So far, management believes that it can counter inflationary pressures, including in its input and logistics costs, through price increases.

Saputo has a global strategic plan to target faster organic growth and achieve $2.125 billion in adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), a cash flow proxy, by the end of fiscal 2025. The plan includes initiatives to increase efficiency and productivity by improving its U.S. cheese manufacturing facilities, cutting operations in two Australian facilities, and the potential to outsource to a long-term partner for its Nuneaton warehouse and distribution activities in the U.K.

If this plan works out, the stock can reach the $50 level for approximately 46% upside potential. At $34.26 per share, the dividend stock also yields 2.1%. In the first half of the fiscal year 2023, Saputo increased its revenue by 22%, adjusted EBITDA by 25%, and adjusted earnings per share (EPS) by 42%.

Since fiscal 2020, its capital structure has improved. For instance, its long-term debt-to-equity ratio fell from 72% to 62%.

Empire stock

Empire is a food retailer that also owns investments in related real estate. Sobeys is Empire’s grocery store chain across Canada. Its other banners include Safeway, IGA, Farm Boy, Longo’s, and Freshco. Empire also owns a 41.5% stake in **Crombie REIT** and equity interests in other real estate.

Like Saputo, Empire is a Canadian Dividend Aristocrat with more than 20 consecutive years of dividend increases. Empire’s 10-year dividend-growth rate is 7.1%, which is a solid growth rate driven by EPS growth of about 6% and mild payout ratio expansion in the period.

The stock has been under pressure from higher inflation, particularly in relation to cost of goods sold and fuel. In the fiscal first quarter, it increased revenue by 4.1% and gross profit by 3.4%. Although its operating income dropped marginally by less than 1%, it increased its EPS marginally by 1.4%.

The essential business is here to stay. At $36.66 per share at writing, Empire stock yields 1.8%. The dividend stock appears to be trading at a good valuation at about 12.8 times earnings. From the 12-month analyst consensus price target, it trades at a discount of about 15%. An investment today can potentially deliver total returns of 10-12% per year over the next three to five years.

The Foolish investor takeaway

These consumer staples stocks likely won’t be home runs in your portfolio, but they won’t make you lose your shirt either. As stocks in a defensive sector, they can deliver solid returns over the next five years or longer with below-average risk and volatility.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

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2. TSX:SAP (Saputo Inc.)

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