2 Canadian Consumer Stocks to Own, Especially if There's a Recession

Description

I guess the TSX won't deliver positive returns this year. After rising above 20,500 to start December, the index lost more than 1,000 points, or 5%, by mid-month. As of this writing, the year-to-date loss is 8.39%, with only energy (+42.08%), consumer staples (+10.21%), and industrial (2.59%) stocks showing gains out of 11 primary sectors.

Bank of Canada governor Tiff Macklem said, "With inflation running well above target, this is the greater risk. If high inflation sticks, much higher interest rates will be required to restore price stability, and the economy will have to slow even more sharply."

Only a significant drop in inflation will stop the rate hikes and spark a stock market rebound. Meanwhile, investors should seek safety first. Now is the best time to own consumer stocks like **Dollarama** (TSX:DOL) and **North West Company** (TSX:NWC) if there's a recession.

Compelling value proposition

Dollarama in the consumer staples sector is resilient as ever amid an inflationary environment. At $81 per share, current investors are up 28.32% year to date and enjoy a very modest 0.28% dividend. In the third quarter (Q3) of 2022, the $23.26 billion company reported decent financial results.

Revenue and net earnings increased by 15% and 10% to $1.29 billion and $201.6 million versus Q3 2021. Neil Rossy, Dollarama's president and chief executive officer (CEO), said, "We aim to stay true to our compelling value proposition and to meet and exceed the expectations of our customers from coast to coast."

Management noted that inflationary pressures continue to drive consumer demand for consumable products. Rossy added, "Growing Latin American value retailer Dollarcity, in which we have a 50.1% equity interest, also continues to deliver a strong financial and operational performance." After three quarters in 2022, total stores number 350 — a 13% increase from year-end 2021.

For fiscal 2023, management projects between 9.5% and 10.5% comparable store sales growth.

Dollarama recently entered an agreement to purchase industrial properties to have additional flexibility to support its long-term logistics needs. Rossy also hopes to have 2,000 Dollarama stores in Canada by 2031.

Holding ground

Like Dollarama, North West Company should thrive in a recession. This $1.73 billion retailer of food and everyday products and services has a built-in competitive advantage. Its captured markets are consumers in rural communities and hard-to-reach areas such as northern Canada, rural Alaska, the South Pacific, and the Caribbean.

While net earnings in Q3 2022 declined 23% to $30.2 million versus Q3 2021, NWC president and CEO Dan McConnell said, “We have been able to hold our ground at the top line.” The consolidated sales during the quarter increased 6% to $586.7 million amid higher inflation in Canadian and International Operations.

As customers shifted their discretionary spending towards essential items, NWC continues to work with suppliers and carriers to help mitigate inflationary pressures. Performance-wise, the consumer defensive stock is up 9.5% year to date. If you take a position today, the dividend yield is an attractive 4.17%.

Low-volatility stocks

Dollarama and the North West Company are winning investments in 2022, because demand for their products and services never wanes. Thus, both companies should endure the coming recession.

CATEGORY

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