Worried About a Recession? 3 TSX Giants to Outpace the Market

Description

Several analysts and economists expect the U.S. and Canadian markets to head towards a recession this year due to monetary tightening policies.

Most central banks globally hiked interest rates in 2022 to combat inflation. But a higher cost of debt will impact the profit margins of companies, narrowing their bottom line in the next 12 months. An economic downturn is also likely to hamper consumer spending and accelerate the stock market sell-off in the near term.

So, it makes sense to place your bets on recession-resistant companies that enjoy pricing power and generate cash flows across market cycles while paying investors an attractive dividend yield. Here are three such recession-resistant TSX stocks investors can consider buying in 2023.

Fortis

One of the largest utility companies in Canada, **Fortis** (TSX:FTS) offers investors a dividend yield of 4.2%. Fortis has increased its assets from just $390 million in 1987 to $64 billion in 2022. Its subsidiaries include 10 affiliate electric and gas companies that serve more than three million customers in North America.

Fortis has increased dividends for 49 consecutive years, and these payouts are expected to increase by 5% annually in the medium term.

In the next five years, Fortis will deploy over $22 billion in capital expenditures allowing the company to expand its base of cash-generating assets and increase dividends in the future.

Fortis stock is priced at a discount of 8% to consensus target estimates. After accounting for its dividend yield, total returns will be closer to 12% in 2023.

Hydro One

Among the largest electrical utilities in North America, **Hydro One** (TSX:H) enjoys a significant scale and leadership position in Ontario. Equipped with one of the strongest investment-grade balance sheets in the utility sector, Hydro One offers a unique combination of electrical transmission and load distribution with no power generation assets.

Its solid financials have enabled the utility behemoth to increase dividend payouts by 5% annually in the last six years. The company aims to maintain a payout ratio of less than 80%, providing it with enough room to focus on rate base expansion.

Hydro One operates in a stable, transparent, and rate-regulated environment. It has a predictable growth profile, and the company's approved capital investment program should drive rate base growth higher in 2023 and beyond.

Emera One

The final utility stock on my list is Emera One (TSX:EMA), a company that serves 2.5 million customers in Canada, the United States, and the Caribbean. Emera has outlined a three-year capital program between $8 billion and $9 billion, allowing it to expand its rate base by at least 7% through 2025.

Emera's dividend yield is quite tasty at 5.3%, making it ideal for income-seeking investors. In the last 15 years, Emera has increased dividends by 5.2% annually. EMA stock also trades at a discount of over 13% to consensus price target estimates.

Further, the company generates around 63% of its earnings in the United States. It has also allocated 75% of CAPEX in Florida, allowing Emera to expand its presence south of the border.

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