Add a Margin of Safety With 2 Consumer Staples Stocks

Description

The term margin of safety refers to the concept that value investors use to assess a prospect. Warren Buffett, the GOAT of investing, buys stocks when the price is below the intrinsic or actual value. There is cushion or protection against significant losses when you apply this principle.

Some investors will buy consumer staple stocks to add a margin of safety. **North West Company** (TSX:NWC) and **Maple Leaf Foods** (TSX:MFI) aren't immune from economic downturns but demand for their products will always be steady. Their dividend payments can also compensate for declines in share prices.

Captured markets

North West is a trusted community store in northern Canada, Western Canada, rural Alaska, South Pacific, and the Caribbean. This $1.76 billion retailer provides essential everyday products and services to customers in remote or hard-to-reach locations. The emphasis is on food, although its allied services include logistics, post office, air cargo, and commercial business sales, among others.

Performance-wise, the stock has performed well amid the challenging environment. As of this writing, the share price is $36.87 (+3.67% year to date), and the dividend yield is 4.17%. Management promises to deliver sustainable, superior total returns. Moreover, NWC firmly commits to downside risk management, disciplined capital allocation, cash flow optimization, and dividend growth.

In the nine months that ended October 31, 2021, net earnings declined 25.5% year over year to $90.7 million. Despite lower earnings, NWC's top priority is to remain in stock on essential food and general merchandise items. The position is healthy, notwithstanding inflationary cost pressures and global supply chain disruptions.

According to management, NWC is on track to completing its multi-year rollout of next-generation merchandise and store systems. Enhancing its logistics capability by optimizing the air cargo business is also ongoing. More importantly, the medium- and longer-term outlook beyond the duration of the current environment is favourable.

The anticipated impact of government transfer payments, higher infrastructure spending in Indigenous communities, and the resiliency nature of the business are positive factors in 2023.

Compelling growth opportunities

Maple Leaf aims to transform Canada's food industry by making delicious and nutritious food. It takes pride in being the country's largest producer of prepared meats & poultry and "raised without antibiotics" poultry. This $3.24 billion consumer protein company derives revenues from two core business groups: Meat Protein and Plant Protein.

The company incurred a net loss of $270.4 million after three quarters in 2022 compared to the net income of $100.9 million a year ago. But Maple Leaf's chief executive officer Michael H. McCain said, "We are at an important inflection point in our business, grounded in exceptional underlying strength and opportunity, even though this is not immediately obvious in current performance or reflected in our share price."

At $26.25 per share, current investors are up 7.36% on top of the 3.04% dividend. McCain is optimistic that Maple Leaf's major capital investment will deliver significant returns and should reflect in the share price soon.

Steady performers

The steady performances of North West and Maple Leaf indicate that the respective businesses can endure recessionary periods. Any drop in the share prices is temporary and should recover eventually when high inflation recedes.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MFI (Maple Leaf Foods Inc.)
2. TSX:NWC (The North West Company Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn

5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. cliew
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/08/11
Date Created
2023/01/18
Author
cliew