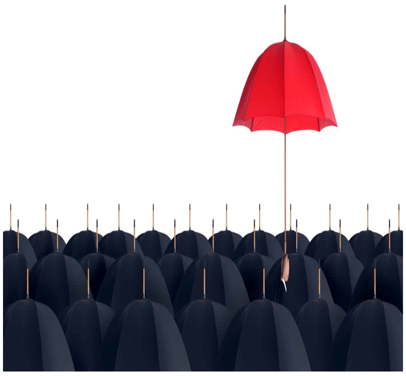

2 TSX Stocks Safer for Investing in a Recession

Description

The persistently high inflation, increase in interest rates, and uncertainty point to a slowdown in the economy. A recession may or may not come in 2023. However, investors can hedge their portfolios by adding shares of consumer companies. Even though consumer companies are not entirely immune to the economic headwinds, they perform relatively well compared to the other sectors and stabilize your portfolio.

Against this background, let's look at two Canadian stocks from the consumer space that can reduce the downside risk of your portfolio and beat the benchmark index in a recessionary environment.

Alimentation Couche-Tard

With its low-risk business, **Alimentation Couche-Tard** (TSX:ATD) stock could prove to be a great addition to your portfolio amid a recession. Its defensive business will add stability to your portfolio. Moreover, investors can benefit from its growing dividend and ability to rapidly grow its sales and earnings.

Couche-Tard's revenues grew at a CAGR (compound annual growth rate) of 11% in the past decade. Thanks to the leverage from higher sales, Couche-Tard's EPS (earnings per share) increased at a CAGR of 20% during the same period. The company's growing earnings base has allowed it to enhance its shareholders' returns through higher dividend payments. Notably, its dividend increased at a CAGR of 24.7% in the last 10 years.

Overall, its value offerings, solid store presence in Canada, focus on expanding its footprint in the U.S., and strategic acquisitions will likely drive its revenues in the coming quarters. Moreover, leverage from higher sales and cost efficiencies will cushion its earnings. Also, its solid balance sheet with low-cost debt provides substantial investment capacity to the company to fuel future growth.

Dollarama

Next up are the shares of **Dollarama** (TSX:DOL), which has the potential to perform well, even in a challenging operating environment. For instance, Dollarama stock gained about 37% in one year, despite macro headwinds and outpaced the S&P/TSX Composite Index.

Its outperformance stems from the comprehensive offerings of consumable products, compelling pricing strategy, and a large store base. It has stores across all the 10 provinces of Canada, which provides it a competitive advantage over peers and is key to its success.

Like Couche-Tard, Dollarama's top and bottom lines have increased at a double-digit rate in the past decade. Meanwhile, the momentum in its business has sustained in the current fiscal year amid a high inflationary environment.

The Canadian value retailer's comparable store sales increased by 10.8% in the third quarter of fiscal 2023. Moreover, its EPS grew by 14.8%. Thanks to the strength in its business, Dollarama expects its comparable sales to grow at a healthy pace in fiscal 2023.

Overall, Dollarama's compelling value proposition and increase in the store base position it well to deliver solid sales and earnings even in an economic downturn. Moreover, its focus on value-enhancing share buybacks and annual dividend growth are positives.

Bottom line

The recession-resilient businesses of these companies and their value proposition position them well to outperform the benchmark index in an economic downturn. It's worth highlighting that despite their low-risk business, shares of these companies have appreciated quite a lot and outpaced the broader markets.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ATD (Alimentation Couche-Tard Inc.)
2. TSX:DOL (Dollarama Inc.)

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1. Investing

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