Safe haven success won't come easy

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OTTAWA (Reuters) - Investors unable to stomach a fitful market and unsettled by economic worries might seek refuge in recession-resistant consumer stocks, but success in this safe-haven strategy won't come easy.

Profit hinges on tough scrutiny and sifting through lean offerings to unearth the best bargains with the most potential, while weeding out those stocks too badly damaged by rough competition or a poor business strategy.

"The argument for staples, conceptually, may be fantastic, but the actual companies available on the Toronto Stock Exchange may not be so fantastic," said Merrill Lynch Canada chief economist David Wolf.

"A macro idea is great, but it always needs to be tempered by microanalysis, or you can get yourself into trouble."

Several analysts say that sector stars include pharmacy retailer Shoppers Drug Mart , coffee and doughnut chain Tim Hortons and auto parts and household goods retailer Canadian Tire .

Shoppers, whose stock is down about 4 percent so far this year, is forecasting growth of 12 percent to 15 percent in 2008.

Some of the credit for Shoppers' solid financials goes to a carefully planned strategy and early preparation for Wal-Mart's push into the Canadian market, analysts add.

"Three-quarters of their revenue is derived from truly staple goods that will not fluctuate in a recession," said Research Capital analyst Stuart Morrow. "So that's a pretty good investment if you're looking at a downturn."

Like Shoppers, Canadian Tire and Tim Hortons are buttressed by the durable name they have established.

"They have great brand value and each has their own core market that they've carved out and that they own, and are able to defend in an economic slowdown," Morrow said. "All of those things are great things to have ... if you're talking about a slowdown, especially in a consumer environment."

Shares in Canadian Tire -- which also owns gas bars, financial services and clothing chain Mark's Work Wearhouse -- are off 11 percent this year. It recently forecast growth of 2 percent to 7 percent in 2008, versus about 18 percent in 2007.

Tim Hortons said this past week it expects 10 percent operating income growth in 2008, repeating its 2007 target. Its stock is down about 5 percent this year.

But not all recession-proof companies are good buys.

Grocers, for example, have been turned on their ear by Wal-Mart's entry into the food business in Canada -- a shakeup that BMO analyst David Hartley has likened to deregulation.

The sector is performing poorly as stores slash prices, which squeezes profit margins, in an effort to keep customers.

The food-dominated consumer staple index <.GSPTTCS> has tumbled 8 percent this year and about 16 percent in the past 12 months.

The consumer discretionary index <.GSPTTCD>, which lists retailers, telecoms and Tim Hortons is off nearly 11.5 percent in 2008 and 15.5 percent over the last 12 months..

Canada's biggest supermarket chain, Loblaw , is leading the price-cutting charge but has been further hurt by supply chain woes and an internal restructuring. Its shares are off 15 percent this year and 38 percent over the past 12 months.

Veritas Research analyst ***Peter Holden*** argues that Loblaw could couple its sales growth with better margins by 2009. That means its bargain-priced stock is attractive now, he said.

"Loblaw is going to drift along until they come to a quarter where they put together both impressive growth and improving margins," he said. "And all of a sudden people are going to believe they're not going to languish."

($1=$1.01 Canadian)

(Reporting by Susan Taylor; editing by Rob Wilson)