3 Canadian Gems to Buy Amid Rising Interest Rates

Description

Even though inflation has cooled off a bit lately, interest rates will likely keep trending high. This is because inflation is still much higher than the Fed's long-term target range. So, it seems a bit early to get in the "risk-on" mode, and it's better to stay with defensives or companies with good earnings visibility.

Enbridge

Canadian energy midstream giant **Enbridge** (TSX:ENB) is one such name that stands tall in these uncertain markets.

Enbridge carries oil and gas through its pipelines and connects refiners to oil producers. Notably, its earnings are not significantly impacted by oil price swings. Instead, it derives its income from long-term contracts, enabling earnings and dividend stability.

As oil prices have markedly risen since the pandemic, oil producers have raised their output, increasing throughput volumes for companies like ENB.

ENB is one of the top dividend-paying Canadian bigwigs, with its 6.3% yield. It has increased its shareholder payouts for the last 27 consecutive years, indicating sufficient dividend reliability. Although it offers decent dividends, it also looks attractive from a capital gain perspective for the long term. For instance, ENB stock has delivered 12.5% returns compounded annually, including dividends, since the financial meltdown.

Dollarama

Dollarama (TSX:DOL) stock has gained 30% this year, while TSX stocks have lost 6% in the same period.

Roaring inflation and interest rate hikes have weighed on companies' earnings and squeezed their margins this year. However, Dollarama has not seen as negative an impact as its peers in this period. Its net income for the last reported quarter came in at $193 million — a decent 46% hike year over year.

The discount retailer experienced accelerated revenue growth and impressive profit margin stability in the last few quarters. That's because Dollarama offers unique value, which is highly preferred amid high-inflation periods.

DOL stock will likely continue to trade strong, despite a steep rally this year. Investors should continue to turn to Dollarama stock, given its earnings and margin stability amid uncertain times.

Tourmaline Oil

Oil and gas producer companies usually have the pricing power, which stands tall in inflationary environments. Unlike consumer companies, they can effectively pass on the higher cost burden on to their customers without having to take impact on their earnings. Canada's biggest gas producer, **Tourmaline Oil** (TSX:TOU), has shown immense strength this year, notably beating broader markets.

While the world has grappled with higher prices, energy companies have seen massive financial growth. For Tourmaline, its net income came in at $4.5 billion for the last nine months, marking a jaw-dropping 338% increase against the same period last year. Notably, Tourmaline prominently used this excess cash for deleveraging and dividend payments. So, it has paid a total dividend of $7.9 per share, indicating a yield of 10%.

Even if rate hikes continue for the next few quarters, Tourmaline will likely continue to see superior free cash flow growth. It is well positioned to deliver stellar shareholder returns, with its strong operational execution and higher expected gas prices.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:DOL (Dollarama Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:TOU (Tourmaline Oil Corp.)

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