3 Top TSX Stocks to Buy if the Interest Rate Hike Slows

Description

While it is too early to expect a rate hike slowing, some TSX stocks could soar higher next year if that materializes. Here's a quick look at those potential candidates.

Nuvei

Canadian payment processor stock **Nuvei** (TSX:NVEI) seems to have hit bottom, with levels around $35-$38 acting as a support. The rate-hike woes and a short report last December drove a ruthless correction in the stock, bringing it down 78%. Nuvei still does not look appealing from a valuation standpoint. But if the rate hike slows or pauses sometime next year, we might see a stellar recovery from the stock.

Nuvei stands tall among peer payment processors due to its scale and diversified revenue base. From e-commerce to travel websites and from cryptocurrency platforms to regulated sports betting companies, Nuvei provides its payment platform that supports over 600 payment methods.

Even when the macro environment is challenging, Nuvei has delivered decent top-line growth this year. So far in 2022, its revenues have grown 23% year over year. While its margins saw some pressures, they will likely recover, as inflationary pressures ease next year.

Moreover, the management has guided revenue growth of +30% and a +50% adjusted EBITDA (earnings before interest, tax, depreciation, and amortization) margin annually for the long term.

Fortis

Utility stocks and interest rates move inversely to each other. So, as the rate-hike cycle slows, utilities could soon turn higher. **Fortis** (TSX:FTS) has already seen much weakness, losing 25% between May to October. However, it has started seeing some recovery lately.

Bonds deliver higher returns amid rising interest rate periods, making utilities — popularly known as bond proxies, less attractive. Now that things could revert, defensives like Fortis will likely remain in the limelight.

Fortis has decent earnings visibility due to its large, regulated operations. Even in case of a recession, it will likely continue to see stable earnings and dividend growth. It currently yields 4.2%, which is in line with its peer utility stocks.

Fortis gives away a significant portion of its earnings as dividends to shareholders. In the last 12 months, it has paid out 80% of its earnings as dividends. Notably, it intends to increase shareholder dividends by 5-7% annually for the next few years.

Canadian Natural Resources

If the rate-hike cycle slows, it might ensure a soft landing of the economy and could avoid recession, as some expect. Crude oil prices might find support in that case, making a strong case for energy producers.

Canadian Natural Resources (TSX:CNQ) is one of my favourite TSX energy names. Its strong balance sheet, operational efficiency, and superior dividend profile make it an appealing name in the sector.

CNQ stock has returned 60% this year, which is in line with its peers. It currently yields more than 4% and has increased dividends for the last 23 consecutive years. Such consistent dividend growth for a risky sector like oil and gas is quite a feat. Notably, it continued to raise shareholder payouts even during the pandemic, when peers suspended their dividends.

If oil prices remain elevated next year, CNQ will likely see superior free cash flow growth and continued deleveraging. This could continue to create notable shareholder value in 2023 as well.

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3. TSX:NVEI (Nuvei Corporation)

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