3 Quiet TSX Stock Winners You'll Wish You Knew About Earlier

Description

Very few TSX stocks outperformed the markets this year. That's because record-high inflation and rising rates badly hurt equities, leading to massive value erosion. Some stayed resilient due to their economic moat and solid earnings potential. Here are three that outperformed broader markets this year and could play well going into 2023.

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Intact Financial

While markets have dropped 5% this year, **Intact Financial** (TSX:IFC) has returned 20%. Intact is a leading property and casualty insurer with a dominating 20% market share in Canada.

Some sectors and stocks are highly vulnerable to rate hikes and inflation. However, Intact has been relatively resilient. Its net income for the nine months that ended on September 30, 2022 came in at $2 billion, a nice 45% year-over-year growth rate. Intact also saw margin expansion in 2022 compared to last year.

Intact has enjoyed superior financial performance in the previous decade. Its scale and strong underwriting have played well, driving handsome business growth over the years. As a result, IFC stock has created immense value for shareholders and returned 15% compounded annually.

Due to its earnings predictability, Intact has increased its dividends for the last 17 consecutive years. It currently offers a stable 2% dividend yield.

North West Company

North West Company (TSX:NWC) is a $1.8 billion retailer operating in Northern Canada, Western Canada, rural Alaska, and the Caribbean areas. It is a slow-but-stable growing company that has returned 15% this year.

The company reported a 24% drop in earnings in the latest quarter, mainly due to higher inflation and changes in its product sales blend. The stock saw some recovery recently after tumbling on poor quarterly numbers in September.

Note that earnings visibility stands tall in uncertain markets. It drives stable value creation for shareholders. We have seen this in the case of NWC. The stock currently yields 4%, higher than TSX stocks. In the last 10 years, it has returned 10% compounded annually, notably beating broader markets.

Athabasca Oil

Small-cap TSX energy stocks have remarkably outperformed their large-cap peers in the last few years. Consider **Athabasca Oil** (TSX:ATH). ATH has returned 140% in 2022 and nearly 1,900% since the pandemic.

Like many other oil and gas producers, Athabasca Oil saw stellar earnings growth in the last few quarters. However, apart from earnings growth, the bigger value creation happened due to its massive deleveraging. Net debt declined from ~$175 million last year to $47 million as of Q3 2023.

Even if oil prices have come down significantly in the last few months, they are still higher than their historical trend. So, energy producers like Athabasca will likely continue to see steep financial growth next year as well. Moreover, such windfall gains will mostly go towards debt repayments, ultimately strengthening its balance sheet.

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ATH stock is trading 20% lower from its all-time highs in June this year. Its current valuation and earnings growth prospects could drive considerable value creation.

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1. TSX:ATH (Athabasca Oil Corporation)
2. TSX:IFC (Intact Financial Corporation)
3. TSX:NWC (The North West Company Inc.)

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