3 Sturdy TSX Stocks That Could Outrun Inflation

Description

Canadian markets dropped 6%, while the **S&P 500** fared much worse, losing 15% so far in 2022. The downturn was quite on the expected lines, given the adamant inflation and rapid interest rate hikes.

Notably, the outlook for broader equity markets going into 2023 does not look too positive, with more rate hikes coming. But there are some stocks that have pricing power and stand tall, even in inflationary periods. Here are three such TSX stocks that could outrun inflation and outperform in 2023.

Dollarama

While companies see a contraction in earnings and stock performances, **Dollarama** (TSX:DOL) is seeing high growth all over. The Canadian value retailer has notably outperformed its peers this year, soaring 35% this year.

In the recently reported quarter, Dollarama reported a 15% growth in revenues and a 10% increase in net income year over year. Its comparable store sales growth came in at 11% year over year. Rising costs have bothered it as well. However, Dollarama has tackled it well with the introduction of a higher price point and the addition of new stores.

Dollarama stands way taller among its peers when it comes to store count. Its widespread geographical presence is one of its key competitive advantages. Its financial growth and margin stability, in almost all economic cycles, highlight its business strength.

DOL stock is currently trading at its all-time high. As inflation and rate hikes will likely be key themes next year, DOL stock could continue to play well in 2023 as well.

Tourmaline Oil

The energy sector looks well placed for 2023 amid a worrying inflation outlook. Among TSX energy names, the country's largest natural gas producer, **Tourmaline Oil** (TSX:TOU), is one of my favourite stocks.

Higher production will likely fetch superior earnings amid the high-price scenario. Its free cash flow growth has already created stellar shareholder value in the last few years. TOU stock has returned 110% this year and over 700% since the pandemic.

In the last 12 months, TOU reported free cash flows of $2.74 billion, representing a massive 220% growth compared to 2021.

Tourmaline Oil is one of the few companies in Canada that has aggressively distributed its free cash flows to shareholders via special dividends. Along with deleveraging, shareholder returns have also been the company's focus amid these fruitful times. Its improving balance sheet, earnings-growth prospects, and dividends could continue to create more value.

Canadian Utilities

Utility stocks play well amid recessions and higher volatility periods. Even if rate hikes deter their growth, much damage has already been done this year. So, **Canadian Utilities** (TSX:CU) stock could be a classic defensive bet for next year.

It may not satisfy a growth investor as some energy or tech names might. However, its stable dividend and slow-moving stock could beat markets.

Like many regulated utilities, Canadian Utilities derives a significant portion of its earnings from regulated operations. This enables cash flow and dividend predictability. As a result, utilities can afford to distribute a big chunk of their earnings as dividends even in economic downturns.

CU currently yields 5%, which is higher than peer TSX utility stocks. The stock has gained 5% this year, outperforming broader markets. Investors can expect a similar performance next year, given its slow-but-stable earnings and dividend growth.

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2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)
2. TSX:DOL (Dollarama Inc.)
3. TSX:TOU (Tourmaline Oil Corp.)

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