3 Top TSX Value Stocks to Buy Ahead of 2023

Description

Like 2022, inflation and rate hikes will be key themes for markets in 2023 as well. So, growth stocks could remain out of favour and value names will likely be in the limelight. Here are three TSX stocks that could outperform next year.

MEG Energy

MEG Energy (TSX:MEG) stock has dropped 30% since its 52-week highs and is currently trading at $17.60. Despite the steep fall, it is sitting on 45% gains for the year. The stock looks appealing at current levels, given its discounted valuation and earnings growth prospects for next year.

MEG Energy is one of the few energy companies in Canada with long reserve life. The stock has been weak in the last few months, mainly due to its large exposure to Western Canadian Select. The Canadian heavy oil benchmark has underperformed in comparison with WTI (West Texas Intermediate). However, the differential will likely normalize next year.

MEG saw higher production in Q3 2023, which remarkably boosted its earnings. The company is already aggressively repaying its debt, ultimately increasing its balance sheet. Moreover, it has chosen a buyback route to distribute windfall cash flows to shareholders. So far this year, it has repaid $1.1 billion of debt and has bought back 186 million shares. Share repurchases could drive a short-term spurt in stock prices.

Based on its superior asset quality, higher production and solid earnings growth prospects, MEG looks well-placed for 2023.

Bank of Montreal

Canadian bank stocks saw a significant drawdown this year amid rapid rate hikes. Among the Big Six, **Bank of Montreal** (TSX:BMO) stands out among its peers. Banks usually outpace broader markets during rising rate periods. However, this year, record-high inflation and faster rate increases have induced recession fears, which weighed on bank stocks.

Bank of Montreal released its quarterly earnings last week. Its net income more than doubled last year. Provisions for bad loans increased for BMO, in line with its peers. However, it seems to have a relatively superior credit quality. At the end of fiscal Q4 2022, Bank of Montreal had a common equity tier 1 ratio at 16.7%, the highest among its peers.

Notably, BMO offers a healthy dividend profile and yields 4.5%. The bank has paid dividends for the last 194 consecutive years, the longest dividend payment streak for any Canadian company.

B2Gold

Gold stocks had a weak 2022 amid rapidly rising rates. However, some of them seem to have recently hit bottom and could rally next year. One of them is Canadian gold miner **B2Gold** (TSX:BTO).

B2Gold stock is currently trading 30% lower from its 52-week high in April 2022. Higher rates pushed up Treasury yields and the US dollar, which ultimately weighed on gold. As the rate hike cycle slows or inverts next year, gold will likely change course and push miner stocks higher.

B2Gold is currently trading at an EV-to-EBITDA (enterprise value to earnings before interest, tax, depreciation, and amortization) valuation of 3x, lower than peers. The discount indicates a decent upside potential, probably for 2023, if macro challenges subside. Moreover, it currently yields 3.5%, higher than its peers.

CATEGORY

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1. TSX:BMO (Bank Of Montreal)
2. TSX:BTO (B2Gold Corp.)
3. TSX:MEG (MEG Energy Corp.)

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