2 TSX Stocks to Buy Hand Over Fist and 1 I’d Avoid Like the Plague

Description

If you had a terrible 2022 as an investor, you are not alone. Plunging stocks, along with massive volatility, dug a deep hole in investors’ pockets. And notably, we are not entering 2023 with a positive outlook. The challenges that weighed on TSX stocks this year will still dominate in 2023, making a weak case for equities.

However, some names do look appealing after their recent correction. It’s the valuation that makes a difference in such markets. So, here are some top picks and one to avoid in 2023.

#1 Top TSX stocks for 2023

Canadian midcap energy company **MEG Energy** (TSX:MEG) looks attractively positioned for 2023. The heavy oil producer has high-quality, long-life reserves with a life of around 50 years, much higher than that of peers. The company showcased handsome financial growth this year amid higher oil and gas prices.

However, as oil has been viciously volatile for the last few months, MEG has dropped 30% since June. The price fallout not only hit MEG. Many TSX energy stocks witnessed a similar plunge.

What makes MEG stock currently attractive is its valuation and earnings growth prospects. It is currently trading at a free cash flow yield of 16%, higher than its peers. Moreover, thanks to its windfall cash flow this year, MEG has notably brought down its debt leverage. This makes it an attractive bet from the balance sheet perspective.

Crude oil and, effectively, energy names will likely continue to trade highly volatile next year as well. Their large price swings and strong correlation make MEG Energy a risky bet. But rewards will also likely be much higher, given its earnings growth potential.

#2 Top TSX stock for 2023

Like 2022, stock picking will not be easy next year, either. Given the inflation and rate hike setup, Canadian value retailer **Dollarama** (TSX:DOL) seems well-placed to outperform in 2023.

Dollarama has not only been resilient, but it has comfortably outperformed broader markets this year. While others witnessed declining earnings growth and a margin squeeze, Dollarama has shown immense earnings and margin stability.

The discount retailer's revenues have grown by 11% in the current fiscal year, the highest in the last five years. Its unique value proposition, especially during inflationary times, stood out among customers. Apart from that, its strong execution and effective supply chain management boded well for its business growth.

DOL stock has returned 35% so far in 2022. It does not look too inexpensive from the valuation standpoint. However, it could keep trading strong amid inflation woes and impending steep rate hikes.

1 TSX stock you should be careful with

Algonquin Power (TSX:AQN) has been a major disappointment this year. Its Q3 2022 earnings notably declined, taking the stock to its seven-year lows. Rising rates boosted its interest expenses, negatively affecting its bottom line in the recently reported quarter.

Now, a dividend cut for next year is a real risk. Moreover, more rate hikes and a concerning level of debt leverage could push its profitability further down in 2023. So, even if the stock seems to offer a premium dividend yield, it's only because of its steep fall.

The New Year outlook will be clearer when it releases guidance for 2023 in January. Meanwhile, the stock might continue to trade subdued, underperforming peer TSX utility stocks.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:AQN (Algonquin Power & Utilities Corp.)
2. TSX:DOL (Dollarama Inc.)
3. TSX:MEG (MEG Energy Corp.)

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Date
2025/08/13
Date Created
2022/12/16
Author
vinitkularni20