The TSX’s Top-Performing Value Stocks of 2022 –Can You Still Buy?

Description

Equity investors did not do so well in 2022. The **S&P 500** lost 20%, while the **TSX Composite Index** fared relatively better, losing 9% last year. Growth stocks took a deep dent amid rising rates, but value names did relatively better.

For 2023 as well, value stocks seem better placed, with inflation and policy tightening risks still in place. So, it would be prudent to have less exposure to growth stocks, at least in the first half of 2023.

Value stocks are those with a discounted valuation but offer huge growth prospects. Investors should also beware of value traps, as some of those names are down for a reason. So, not all immensely corrected stocks are value stocks.

Here are three of them that outperformed last year and could continue their momentum going into 2023.

Tourmaline Oil

Tourmaline Oil (TSX:TOU), Canada’s biggest natural gas producer, created massive shareholder value last year. It returned 75% in 2022, including dividends. Despite the surge, TOU stock is currently trading at five times its earnings.

While the street at large is facing declining financial growth and a margin squeeze, energy producers like Tourmaline are seeing considerable growth. The earnings growth streak will likely continue in 2023, mainly due to higher production and a strong price environment.

Interestingly, apart from secular tailwinds, Tourmaline will likely maintain the momentum driven by a strengthening of its balance sheet and higher cash allocation to shareholder returns. Moreover, Tourmaline is expected to keep its special dividends intact for the current year as well. So, due to its appealing valuation, strong balance sheet, and juicy dividends, TOU stock might keep topping the charts.

Dollarama

Canadian value retailer **Dollarama** (TSX:DOL) remarkably outperformed, returning 27% in 2022. While the stock does not seem undervalued at these levels, it will likely keep soaring higher in 2023 as well.

That's mainly because the company has seen stable financial growth and margins even in inflationary environments. So, even if the macro picture deteriorates next year, DOL will likely be relatively better placed. It has outsmarted peers and broader markets in bull as well as in bear markets in the past.

Dollarama operates a large store chain that offers accessibility and convenience to customers. Its efficient supply chain, broad assortment of merchandise, and unique value proposition stand way taller compared with peers in the Canadian retail landscape.

DOL stock is trading at 31 times its earnings and looks expensive to fit in the value category. However, its premium valuation is quite merited and, thus, this stock might continue to outperform.

Hydro One

Canadian utility stock **Hydro One** (TSX:H) notably outperformed peers, returning 15% in 2022. It is currently trading at a price-to-earnings ratio of 20x and looks undervalued compared with peers.

Hydro One derives much of its earnings from regulated operations, which facilitates earnings and dividend stability. Moreover, it is not involved in power generation but operates transmission and distribution facilities. Utilities are low-risk investment options. But with Hydro One's no exposure to generation, it is a further lower-risk alternative among defensives.

The stock currently yields 3% and aims to maintain a 75% payout ratio in the long term. With stable earnings and dividend growth, Hydro One stock presents a solid defensive bet in volatile markets.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:H (Hydro One Limited)
3. TSX:TOU (Tourmaline Oil Corp.)

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