



M&A Watch – 2 Top TSX Stocks Poised to Make Deals in 2023

Description

Market volatility has carried into the New Year, with new [investors](#) continuing to fret over the Federal Reserve rate hikes. Unsurprisingly, with high levels of inflation, investors saw rates surge in 2022. The rate hikes weighed heavily on stock valuations, sparking one of the ugliest and lengthiest bear markets in recent memory. Unfortunately, the bear's reign is not yet over, but don't let continued selling activity stop you from putting money to work. With \$6,500 in TFSA contribution space, investors should look to find value in a market that could turn on a dime at any moment.

It's hard to believe that stocks can rally higher without a more dovish Federal Reserve. As they continue to be hawkish, investors will need to play it safe with profitable companies that sport fundamentals capable of standing up to a potentially steep economic drop.

As macro pressures continue to weigh on firms from across the board, I'd look for M&A activity to pick up. Joining forces to overcome a tough environment tends to be the best course for smaller firms that may not be best equipped to deal with many months of slowing growth.

As for the firms with the balance sheets healthy enough to make deals, there's considerable value to be had, as valuations continue to fall back to Earth.

As we move into a world where rates could stay higher longer, I want companies that have strong cash positions and the urge to merge.

In this piece, we'll look at two firms with strong M&A track records and equally strong balance sheets. I'd look for both firms to wheel and deal in 2023 and beyond.

Alimentation Couche-Tard

Alimentation Couche-Tard ([TSX:ATD](#)) is a convenience store giant that finished 2022 up around 20%. Indeed, the consumer staple has zigged higher while the rest of the markets zagged lower. As economic woes intensify over the coming weeks and months, I'd look for Couche-Tard to extend its lead over most other names in the market.

With a very strong balance sheet (around \$15 billion (and counting) in acquisition capacity), look for Couche-Tard to go on the hunt for a bargain in the global convenience store (or grocery) space this year.

Indeed, Couche-Tard's expansion knows no boundaries. The firm has grown a sizeable presence across North America and Europe. Next, the firm could break into the Australasian region with a historic deal. Management expressed interest in expanding into the region. As valuations sink across the retail industry, look for Couche-Tard to explore opportunities to pay two quarters for a dollar.

When it comes to value creation via M&A, synergies are the name of the game. And few firms can make the most of them better than Couche-Tard. For now, Couche is sitting on its hands (for the most part), but I'd not discount the potential for smaller deals, as more potential acquisition prices fall into Couche-Tard's strike zone.

At 15.8 times trailing price-to-earnings, I believe ATD stock is heavily discounted, given its recession resilience and strong balance sheet going into a Fed-mandated recession.

Spin Master

Spin Master ([TSX:TOY](#)) is another Canadian icon that's made some pretty sweet deals over the years. The company actually acquired Etch-a-Sketch and stuffed-animal maker Gund. These are two brands that will be around for many decades, if not centuries. More recently, Spin has acquired innovative toy firms, including puzzle-maker 4D brands. Evidently, Spin is open to scooping up legendary old-school brands in addition to intriguing new concepts that could have the potential to become the next generation of classic toys.

Right now, the toy industry is in a bit of a rut alongside almost everything else these days. As sales drag, Spin's numbers will not be pretty. That said, expectations are muted, and Spin will have an opportunity to make the most of industry weakness by looking to buy a peer at a discount.

The recession will not spare Spin. However, odds are good that Spin will walk away from the year with a few deals in hand. For that reason, the absurdly low single-digit (8.7) price-to-earnings multiple does not do the stock justice. I think the toy juggernaut is [misunderstood](#) and would look to M&A as a major earnings driver over the long haul.

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