2 Canadian Stocks That Are Great Deals in February 2023

Description

Markets look well placed to climb higher this year after a significant drop in 2022. Here are two Canadian stocks that could outperform peers in 2023.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ) stock is currently trading 10% lower than its 52-week highs last year. With its strong earnings-growth prospects and a favourable macro setting, CNQ will likely breach those levels and once again create decent shareholder value.

Oil and gas prices currently have been lower than last year but are still in the higher range historically. They are expected to climb further this year, with increasing demand and shrinking supply. Chinese re-openings will be a key factor that will drive oil demand. At the same time, declining Russian supply will likely make the equation all the more skewed in 2023.

As a result, oil producers like CNQ should see another year of higher earnings growth. Canadian Natural is Canada's biggest oil producer and aims to produce 1.35 million barrels of oil per day this year.

Even if oil prices linger around current levels, Canadian oil-producing companies will likely see superior earnings growth. And that's because of their lower interest expenses this year. Almost all energy producers followed capital discipline in the last few years and aggressively repaid debt.

CNQ's net debt has almost halved since the pandemic. So, a large portion of its free cash flows will now go toward share buybacks this year. Including dividends and share buybacks, CNQ returned more than $10 billion in 2022. In 2023, it is expected to earn free cash flows of $10 billion, another stellar year financially.

CNQ stock has returned 25% in the last 12 months, following TSX energy stocks. It is trading at a free cash flow yield of 11% and looks overvalued compared to peers. However, the premium is justified, driven by its low-cost assets, healthy margin profile, and sturdy balance sheet.

B2Gold

The yellow metal seems to be in great touch lately with looming recession fears and slowing rate hikes. Canadian gold miner **B2Gold** (TSX:BTO) is an appealing bet to play the gold rally.

BTO stock is up more than 20% since October, while gold has gained around 15% in the same period. BTO is still 25% lower than its 52-week high of $6.4 in April last year. Higher gold prices will likely boost its earnings this year, creating a decent shareholder value.

B2Gold produced a total of 1.03 million ounces of gold last year and aims to produce 1.04 million this year.

Rapidly rising interest rates weighed on gold as they pushed Treasury yields and the U.S. dollar higher last year. If the rate-hike cycle pauses by mid-2023, that will be a big boost for the yellow metal.

BTO is trading 21 times its earnings and is fairly valued compared to peers. It currently yields 3% — one of the highest yields among TSX gold miners. Its low leverage and healthy margin profile also stand tall among peers. If gold prices maintain strength amid easing macroeconomic issues, BTO will likely outperform peers.

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