



Small-Cap Investors: Our Favourite 12 Stocks for 2023 [PREMIUM PICKS]

Description

Premium content from *Motley Fool Hidden Gems*

Greetings,

To succeed in the stock market, my colleagues and I at *Motley Fool Hidden Gems* believe you should have a portfolio of at least 15 stocks — and commit to owning them for at least 5 years. Ideally, you're working your way up to 25 or more stocks.

But where should you start?

Our yearly list of “Starter Stocks” is our attempt to identify the best small caps trading in the Canadian market. If you're looking to add smaller companies that have plenty of growth potential to your portfolio, look no further than our list of a dozen standouts.

Hidden Gems “Starter Stock” Pick #1:

Stella-Jones ([TSX:SJ](#))

A strong candidate for most boring small cap around – **Stella-Jones** ([TSX:SJ](#)) – makers of fine railway ties and utilities poles – has long followed its own path, while market interest has waxed and waned.

Looking forward, we expect it to continue what it's long been doing. Railway tie demand is reasonably consistent, as North American operators upgrade and maintain their networks (indeed, most of Stella's business comes from replacement work.) A similar dynamic exists for utility poles, although such sales are usually via multi-year contracts in response to public tenders. It's a simple business with slow organic growth, with that growth goosed by an intelligent acquisition strategy/history, run by competent capital allocators who stick to their niche.

In a nutshell, Stella, with its entrenched business, generates a goodly sum of cash. It then capably allocates this cash in the service of shareholder via growth-driving acquisitions, dividends (which it typically raises every year), share buybacks, and debt repayment (taking out any leverage used in those aforementioned acquisitions). It's a boring business that, over the long term, has ably outpaced the market.

Stella had a pretty good 2022 – up about 22% assuming reinvestment of dividends, but really, it's only back to where it was in late 2015 when investors bid up Stella's valuation to 29 times earnings and nearly 20 times EBITDA.

About Stella-Jones

Last updated Aug 12, 2025, 04:00:00pm EDT

Current Price \$76.84

Change \$0.56 (0.7%)

Close Price \$76.84

Open Price \$76.92

Bid \$76.46

Ask \$77.00

Day Range \$75.45 – \$77.37

Year Range \$62.26 – \$94.74

Volume 197,163

Average Volume 102,141

Market Cap \$4,244,718,400.00

Earnings Per Share \$5.93

Since then, even as the business performance has been excellent (revenue has grown at more than 11% annualized; earnings have outpaced revenue at an 11.5% annual clip, and this is while Stella's leverage ratio has dropped/improved by 15%) the valuation multiples awarded by the market have more than halved to about 12.6 times earnings and 9 times EBITDA today.

This makes little sense to us. And we're pretty sure that similar multiple compression isn't in the cards over the next few years (for one thing, it would necessitate that Stella then trade below 6 times earnings and around 4 times EBITDA – which isn't going to happen) – particularly given the business stability, ability to raise prices, and reasonable growth in the business over time.

Stella is a small-cap Starter Stock you can buy and then let quietly go about its boring business!

“Starter Stock” Pick #2

Redacted

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