Best Canadian Stocks to Buy in 2023

Description

We're coming off a bearish year for stocks, one that certainly forced Canadian investors through every expression on the emoji spectrum—from glee to anguish to "*meh*"—and back again.

But as bearish as it was, 2022 was a great year to practice the fundamentals of good investing. That is, to hold quality stocks for long periods of time—no matter how much the overall market dips.

With that end in mind, the best Canadian stocks in 2023 will be companies with solid fundamentals that have long-term growth potential.

Our Methodology:

Our investing analysts at The Motley Fool Canada have selected these stocks as picks they're most excited about in 2023—and some reasons why they think you should be excited, too. But remember, the best Canadian stocks *for you* will be specific to your personal financial situation, risk appetite, and investing strategy.

Also, keep in mind that our investing team chose these stocks as long-term investments. So, while there will likely be volatility in the short term, we believe these are good investments to hold for a minimum of five years.

Best Canadian stocks to buy in 2023

1. Alimentation Couche-Tard (TSX:ATD)
2. CN Rail (TSX:CNR)
3. Constellation Software (TSX:CSU)
4. TMX Group (TSX:X)
5. Descartes Systems (TSX:DSG)
6. A&W Revenue Royalties Income Fund (TSX:AW.UN)
7. Brookfield Infrastructure (TSX:BIP.UN)(NYSE:BIP)
8. Canadian Natural Resources (TSX:CNQ)

9. SmartCentres REIT (TSX:SRU.UN)
10. TELUS (TSX:T)
11. Stella-Jones (TSX:SJ)

Here's more detail on why we like each of these stocks:

1. Alimentation Couche-Tard

A three-time recommendation of our Stock Advisor Premium Service (so far), Alimentation Couche-Tard might well take up permanent residency on this list.

The company operates its convenience store chain under the Circle K (formerly Mac's in Canada), Couche-Tard, Holiday, and Ingo banners. These are brands that most people are familiar with, if not loyal customers.

Couche-Tard has more than 12,000 convenience stores. This includes over 10,000 company-operated stores in North America, Europe, and Asia, as well as 1,800 stores in 14 other countries: Cambodia, Egypt, Guam, Guatemala, Jamaica, Honduras, Indonesia, Macau, Mexico, Mongolia, New Zealand, Saudi Arabia, the United Arab Emirates, and Vietnam.

Annual growth varies depending on acquisitions. But one thing that's consistent is their management and profitability. The company's operating margin has ticked consistently higher as they've integrated their acquisitions into their growing global convenience store chain. This translates into a return on equity in the mid-20% range, which is *not* the norm across the business world.

2. CN Rail

A backbone of the Canadian economy is our system of railroads. And the backbone of our system of railroads is quite literally the 33,000 kilometres of track owned and operated by the Canadian National Railway.

CN Rail plays a vital role in the Canadian economy. Every year, CN railroaders transport more than $250 billion of goods, which includes raw materials like coal, lumber, and wheat, as well as industrial products like automotive parts, petroleum, and chemicals.

CN Rail connects the Pacific to the Atlantic in Canada, as well as Canada to the Gulf of Mexico through Louisiana. The company is somewhat sensitive to changes in the economy, but its competitive moat is well beyond what most can offer.

3. Constellation Software

When it comes to naming Canada's most successful technology companies, the list tends to be pretty short. And safe to say, most would not place Constellation Software on this list. After all, it's hardly a household name.

However, the 2,000% return that this company generated for its investors over the past decade is the stuff that investing dreams are made of. And while we don't expect that kind of return in the decade ahead (because of the law of large numbers), the formula for success that's driven Constellation's growth remains in play. We expect it will prove every bit as effective as it has.

Constellation is a consolidator in the global technology industry. They buy underappreciated, niche software companies and provide them with the resources required to improve operations and grow. Capital allocation is key to this formula, and we view Constellation's founder, Mark Leonard, and the team around him as second to none on this front.

4. TMX Group

The TMX Group owns and operates the machinery behind Canada's investing industry: the Toronto Stock Exchange (TSX), TSX Venture Exchange, Montreal Exchange, and TSX Alpha Exchange.

That's right?this is a stock that literally owns the largest stock exchange in Canada. How's that for paradox?

Overall, the company's organic growth, savvy acquisitions, sound balance sheets, and penchant for innovation make it an excellent business—one we feel very comfortable suggesting you build your portfolio around.

5. Descartes Systems

You've probably heard there's just a bit of inflation in the economy, a shortage of products from broken and backed-up supply chains, geopolitical instability, and shifting tariffs and regulatory requirements that add further complications to the global economy.

Descartes Systems Group helps companies overcome these challenges by providing tools to locate alternative sources of supply, identify new logistics partners, and determine different shipping routes. It also helps companies meet regulatory, customs, and tax requirements around the globe.

The company has the largest neutral shipping network in the world with more than 200,000 shippers, manufacturers, retailers, distributors, and government entities all connected to each other to share detailed information on shipments in the Descartes modular cloud-based platform.

In fact, the challenges facing shipping and logistics are positives for Descartes, as they create more customers who need help making their supply chains more efficient. As new customers come on board, it strengthens the overall network. By the same token, old customers are unlikely to leave because of the value they get from being on the network, which is why Descartes' customer retention rate is consistently around 95%.

6. A&W Revenue Royalties Income Fund

Many great brands fall under the A&W trademark: the A&W restaurants, which are the second-largest fast-food chain in Canada; Chubby Chicken; the Burger Family; and A&W Root Beer. An investor can own all these brands by investing in the A&W Revenue Royalties Income Fund.

A&W has all the qualities we look for in a good stock pick. The restaurant conglomerate is an easy-to-understand business. It has predictable sales and cash flow. And we believe it still has some room to grow. Plus, AW.UN has a 5.2% dividend yield and makes dividend payments monthly— a nice source of passive income or cash to redistribute into more investments.

The COVID-19 pandemic challenged the restaurant industry, but A&W managed to adapt to the changes while making continued improvements after the initial shock.

7. Brookfield Infrastructure

Brookfield Infrastructure manages a global portfolio of physical assets that are located in North and South America, Europe, Asia, and Australia.

The portfolio of high-quality assets generates reliable, recurring cash flows underpinned by long-term contracts. Within the portfolio, assets include regulated transmission lines, natural gas pipelines, railroads, toll roads, ports, natural gas processing plants, residential HVAC operations, cell towers, and data centres.

Not only do we find the assets attractive, but we’re also fond of the asset managers who have a long history of adding value. The diverse portfolio provides an abundance of reinvestment opportunities for the management team. In addition, the team continues to look for valuable acquisition opportunities, such as its recent move into the data infrastructure and communications space.

8. Canadian Natural Resources

Canadian Natural Resources is one of the largest crude oil and natural gas producers in Canada.

We love its cash flow, of course, but what makes Canadian Natural Resources unique is its low cost of production. Management estimates that its break-even price is roughly $26/barrel, while its break-even for cash flow is only slightly higher at $31/barrel.

Because of low production costs, the company was able to fully fund both capital spending *and* its dividend in 2020—despite having an average price per barrel of just $39. Of course, at current prices, Canadian Natural Resources is wildly profitable. Which leaves room to reduce debt, acquire properties, and—of course—increase its dividend.

The company has plenty of room to grow production over the next few years without increasing capital spending. Its oil sands have a reserve life of more than 40 years.

9. SmartCentres REIT

The SmartCentres Real Estate Investment Trust (REIT) operates a number of open-air shopping centres located throughout Canada. While not quite back to where it was pre-pandemic, SmartCentres could return to growth in 2023, especially as leasing activity in Canada is expected to continue rising in the new year.

Looking out longer term, SmartCentres has 282 projects targeted for development with half of them expected to begin construction in the next five years. Many of these projects focus on taking

SmartCentres value-oriented retail properties and converting them into mixed-use properties with housing, storage, and office space.

Plus, we have founder, Executive Chairman, and CEO Mitchell Goldhar at the helm with significant skin in the game via his control of 26% of the outstanding units. With Goldhar not only do we get the usual benefit of an interested and invested owner, but an owner with a distinct distaste for taking on too much debt. A quality that's more welcome as interest rates rise and debt refinancing risk is on the rise, too.

10. TELUS

TELUS is a major wireless internet provider with a big stake in the development of 5G. The company has already committed $40 billion to bringing 5G networking to all areas across Canada, and it has even partnered with Nokia to make this happen.

The importance of this role can't be ignored. Having stronger wireless connectivity will help strengthen Canada's digital economy which, though not the weakest in the world, is certainly not the strongest among developed nations. Canadians have come a long way in access to 5G networks, but with nearly a fourth of Canada still within only a 4G range, there's still a lot of growth in this sector.[1]

We're all for predictable, easy-to-understand businesses, and TELUS is about as simple as you can get. As they wrap up their fibre buildout, their capital spending will likely decline. That's good news for investors, as that means the company can grow its dividend program.

11. Stella-Jones

A strong candidate for the most *boring* company on this list, Stella-Jones is North America's largest producer of treated wood for industrial uses. Their main products include fine railway ties, utility poles, and lumber used in residential and commercial construction.

The demand for railway ties is consistent, as North American operators upgrade and maintain their networks. Most of Stella's business, in fact, comes from replacing old railway ties, rather than laying new ones. The story is the same for utility poles, though these sales are usually via multi-year contracts in response to public tenders.

Stella has a simple business model with slow organic growth that is sometimes accelerated by smart acquisitions. Looking forward to 2023, we expect Stella to keep doing—*well*—what it's long been doing: growing quietly and rewarding shareholders.

Bottom line on the best 2023 Canadian stocks

When choosing stocks from the list above, make the choice for yourself, not because one of our writers suggested it. Picking stocks wisely involves analyzing a company's fundamentals and deciding if the stock fits your investing goals.

If 2023 is your first year investing, we recommend getting caught up on the fundamentals of investing. Use our investing guide to kickstart your year in investing, then browse the top online brokerage accounts in Canada to get started.

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:ATD (Alimentation Couche-Tard Inc.)
3. TSX:AW.UN (A&W Revenue Royalties Income Fund)
4. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
5. TSX:CNQ (Canadian Natural Resources Limited)
6. TSX:CNR (Canadian National Railway Company)
7. TSX:CSU (Constellation Software Inc.)
8. TSX:DSG (The Descartes Systems Group Inc)
9. TSX:SJ (Stella-Jones Inc.)
10. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)
11. TSX:T (TELUS)
12. TSX:X (TMX Group)

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