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Eight Canadian stocks named to RBC's 'Top 30 Global Ideas for 2023' list

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Eight Canadian stocks have been named to RBC Dominion Securities' "Top 30 Global Ideas" for 2023.

Unveiled in a research report released Tuesday before the bell, the list - which is updated quarterly - is comprised of "high-conviction, long-term" investing picks seen to have significant upside potential."

Last year, the firm's selections delivered a total return in local currency of negative 10.4 per cent, outperforming the MSCI World Index (negative 18.4 per cent). Since its 2019 inception, the list has had a total positive return of 23.2 per cent, topping the benchmark at 15.6 per cent.

Broadly, RBC strategists are expecting a flattish or positive low single digit 12-month return in the S&P 500, as investors contend with deeply bearish sentiment (a contrarian/bullish signal) and ongoing concerns about the outlook for the economy, the Fed, geopolitics, and corporate earnings. It recommends holding overweight positions in the Energy, Financials, Health Care, Technology and Utilities sectors over the next six to 12 months.

"With the changes to the Top 30 list this quarter, we switch into best ideas that we also view as offering more attractive positioning in the current environment," it said.

The lone Canadian company to be added to the list is Constellation Software Inc. (CSU-T -0.18%decrease).

"We add Constellation Software, with our outlook for high shareholder returns reflecting Constellation's ability to rapidly compound capital through acquisitions, potential to benefit from an uncertain macro environment (high mix of recurring revenue and greater likelihood of M&A), and attractive valuation, in our view," said analyst Paul Treiber, who has an "outperform" recommendation and $2,600 target for its shares (versus the $2,472.61 average on the Street).

Returning Canadian companies are:

* Alimentation Couche-Tard Inc. (ATD-T +1.11%increase) with an "outperform" rating and $80 target. The average target on the Street is $69.92.

Analyst Irene Nattel: "Despite challenging macro backdrop, multiple avenues for growth, underpinned by: 1) top-line momentum from a more-focused, data-driven approach to merchandising/promotional strategies; 2) well-defined initiatives and strategies to optimize procurement; 3) focus on localized merchandise pricing, promotions, and assortments; 4) innovative fuel initiatives, including rollout of Circle-K gas; 5) cost optimization; 6) network development; and 7) opportunistic acquisitions. On track to exceed F23 EBITDA objective of $5.1B excluding merger and acquisition. Solid underlying operating performance aided by focused execution of strategies outlined at mid-2021 investor event to deliver 'double again' objective."

* Canadian Natural Resources Ltd. (CNQ-T -4.61%decrease) with an "outperform" rating and $89 target. The average is $92.90.

Analyst Greg Pardy: "Canadian Natural Resources' management committee structure and shareholder alignment are unique factors which distinguish the company globally. CNQ's long-life, low-decline portfolio—anchored by moderate sustaining capital—affords the company superior free cash flow generative power."

"Impressive Shareholder Returns. CNQ's share buyback remains ring-fenced from acquisitions and strategic growth capital under a formulaic approach. More specifically, now that net debt levels are below $15 billion, the company is allocating 50 per cent of its free cash flow after dividends and sustaining capital to share repurchases, with the balance (less strategic growth capital/acquisitions) earmarked for debt reduction."

* Canadian Pacific Railway Ltd. (CP-T +0.63%increase) with an "outperform" rating and $122 target. The average is $114.14.

Analyst Walter Spracklin: "Our positive view on CP centers on a best-in-class railroad on the cusp of a transformative acquisition that, if approved, should set the stage for significant growth and a material upward valuation re-rate.

"CP's purchase of KSC significantly improves network reach. The network advantage of the CP-KCS deal is the most compelling merit of the transaction in our view. The deal opens up new markets as well as gives CP a meaningful structural advantage versus peers. The transaction significantly increases the company's network reach from Vancouver to Saint John, and now via KCS, down to the ports of Lazaro Cardenas and Veracruz in Mexico. The new network connects six of the seven-largest metro regions in North America in a single-line connection, particularly between the Midwest US/Canada into the Gulf Coast / Mexico and a new third option between the Midwest US and Texas/Mexico."

* Element Fleet Management Corp. (EFN-T +0.33%increase) with an "outperform" rating and $26 target. The average is $22.08.

Analyst Geoffrey Kwan: "Four key themes drive our positive view of EFN: 1) attractive growth – We forecast that EFN's EPS could grow at a mid-teens CAGR over the next five years, driven by new client wins, organic growth within existing customers, and significant returns of capital; 2) multiple potential catalysts; 3) strong defensive attributes – EFN faces minimal credit/residual risks and tends to have long-term contracts (3–5 years) with high retention rates (99 per cent); and 4) attractive valuation – we see high EPS growth as a key driver of valuation and potential valuation multiple expansion."

* Nutrien Ltd. (NTR-N, NTR-T -1.17%decrease) with an "outperform" rating and US$120 target. The average is US$101.95.

Analyst Andrew Wong: "Nutrien is the world's largest fertilizer producer and ag input retailer, formed through the merger of Agrium and PotashCorp in January 2018. We believe the company has built the most diverse, vertically integrated agricultural input business with an attractive earnings profile, growing free cash flows, and solid balance sheet."

"We expect Nutrien to generate more than $18B in excess cash (after dividends) through 2025, which should be deployed through a combination of share buybacks, dividend increases, and accretive Retail M&A. We expect the company to continue regular share buybacks and dividend increases."

* Restaurant Brands International Inc. (QSR-N -0.37%decrease, QSR-T +0.56%increase) with an "outperform" rating and US$80 target. The average is US$67.

Analyst Christopher Carril: "Despite above-average global system sales growth and accelerating comp growth at Burger King and Popeyes, QSR's valuation remains in line with the global "all-franchised" restaurant peer group average, driven in large part by continued weakness at Tim Hortons (responsible for 50 per cent of total op. profit). While we believe that TH sales improvement remains the primary catalyst for QSR shares, we see the combination of BK-driven, near-best-in-class unit growth (normalized 5-per-cent-plus), current momentum at PLK, significant scale, and potential to add brands in the future as key positives for a stock that in our view remains attractively valued."

* Telus Corp. (T-T +0.04%increase) with an "outperform" rating and $34 target. The average is $33.

Analyst Drew McReynolds: "We view 2022 as a pivotal turning point for TELUS as the company transitions into a new post-FTTH (Fibre To The Home) build / 5G phase. We expect the company to emerge in 2023 with a distinctively different financial and operational profile relative to most global telecom peers. As FTTH coverage reaches 85-90 per cent of the targeted broadband footprint by the end of 2022, enhanced capex flexibility should enable TELUS to capitalize on 5G without meaningful capital constraints, opportunity costs or free cash flow impairment. Longer term, under certain operational and regulatory conditions, we see strong strategic and financial rationale for TELUS to explore a transformational re-organization that can fully unlock the value of core infrastructure assets and core technology assets”

U.S.-listed stocks on the list are: American International Group Inc. (AIG-N -0.68%decrease); Anheuser-Busch InBev SA/NV (BUD-N -0.67%decrease); CrowdStrike Holdings Inc. (CRWD-Q 2.12%decrease); Diamondback Energy Inc. (FANG-Q); DuPont de Nemours Inc. (DD-N 0.20%decrease); Heico Corp. (HEI-N -1.65%decrease); M&T Bank Corp. (MTB-N -0.22%decrease); Mastercard Inc. (MA-N -0.53%decrease); Meta Platforms Inc. (META-Q); Palo Alto Networks Inc. (N/A); PG&E Corp. (PCG-N -2.77%decrease); R1 RCM Inc. (RCM-Q); S&P Global Inc. (SPGI-N -0.13%decrease); SBA Communications Corp. (SBAC-Q); Veeva Systems Inc. (VEEV-N -0.93%decrease); Ventas Inc. (VTR-N +0.07%increase) and Wesco International Inc. (WCC-N -2.28%decrease).Other stocks on the list are: CSL Ltd.; Ferrari NV; Inditex; Lonza Group AG and Siemens AG.

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