



Seven TSX stocks named to RBC's 'Top 30 Global Ideas for 2022'

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Seven TSX-listed stocks have been included in "Top 30 Global Ideas for 2022" from RBC Dominion Securities' Equity Research team.

In the research report released Tuesday, the firm added AltaGas Ltd. (ALA-T +0.17% increase) to the list, which is updated quarterly and represents its "high-conviction, long-term ideas." Alimentation Couche-Tard Inc. (ATD-T), Brookfield Asset Management Inc. (BAM-A-T -0.42% decrease), Canadian Natural Resources Ltd. (CNQ-T +5.11% increase), Canadian Pacific Railway Ltd. (CP-T), Element Fleet Management Corp. (EFN-T -0.68% decrease) and Telus Corp. (T-T +0.20% increase) remained in the group.

"Our U.S. Equity Strategy team expects 2022 to be a year of solid but more moderate returns relative to 2021, supported by a strong economic, earnings, and cash deployment backdrop, and believes that stocks remain attractive relative to bonds for now, though less so than a year ago," the firm said. "From a bottom up perspective, the December U.S. RBC analyst survey also suggested that the overall outlook for the next 6-12 months remains optimistic due to strong assessments for fundamentals, valuations, cash deployment and margins, balanced by more cautious views regarding fiscal policy. While COVID, inflation, labour, supply chain, pricing power and regulation remain key issues in focus, our industry analysts are generally confident in their companies' ability to manage through challenges including Omicron.

"Our U.S. Equity Strategy team recommends balancing Value/Cyclical and Growth exposure on a 6-12 month view, with overweight positioning views on the Financials, Energy and Technology sectors over the same timeframe. RBC's U.S. analysts also tilt positive on these three sectors, along with Materials, Utilities and Health Care."

The firm called Calgary-based AltaGas "an attractively valued and catalyst-rich stock with multiple options to maximize value, comparing favourably to utility and midstream peers (e.g. above average rate base and dividend growth, lower payout ratio, and a significant degree of regulated/take-or-pay EBITDA balancing the higher risk midstream business)."

Analyst Robert Kwan has an “outperform” rating and \$31 target for AltaGas shares. The average target on the Street is \$30.43, according to Refinitiv data.

“Is AltaGas a utility or a midstreamer? The market seems to be saying ‘neither,’” he said. “AltaGas’s guidance is for 56 per cent of 2022 estimated EBITDA to come from the U.S. regulated gas distribution utilities (Maryland, Virginia, Michigan, Alaska, and Washington, D.C.) and the remainder from midstream assets (net of corporate costs). With relative balance, we find that utility investors, particularly those looking to play defence, are not enamoured with the higher-risk midstream business, while we find that Western Canadian Sedimentary Basin-focused midstream investors have historically looked to pure-play stocks levered to industry trends.”

Mr. Kwan also covers two other TSX-listed stocks on the list:

* Brookfield Asset Management Inc. (BAM-A-T -0.42%decrease) with an “outperform” rating and US\$73 target . Average: US\$69.51.

“We think the combination of: (1) BAM’s strong long-term investment track record; (2) significant liquidity available (US\$80-billion) to fund acquisitions and investments at potentially attractive prices in the current market environment and drive future NAV [net asset value] growth; and (3) a differentiated and diversified product shelf with demonstrated ability to fundraise and drive scale benefits could result in double-digit NAV growth over time. We continue to view the stock as a core holding,” he said.

* Element Fleet Management Corp. (EFN-T -0.68%decrease) with an “outperform” rating and \$17 target. Average: \$15.84.

“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 [compound annual growth rate] over the next five years, driven by new client wins, organic growth within existing customers, and significant returns of capital; (2) multiple potential catalysts (see below); (3) strong defensive attributes – EFN faces minimal credit/residual risks and tends to have long-term contracts (3–5 years) with high retention rates (98 per cent); and (4) attractive valuation – we see high EPS growth as a key driver of valuation and potential valuation multiple expansion,” he said.

The other TSX-listed stocks are:

* Alimentation Couche-Tard Inc. (ATD-T +0.83%increase) with an “outperform” rating and \$73 target. Average: \$57.88.

Analyst Irene Nattel: “Multiple avenues for growth, underpinned by i) acquisition synergies both direct and reverse; ii) top-line momentum from a more focused, data-driven approach to merchandising/promotional strategies; iii) sharing of best practices among geographies to drive sales and optimize margin/productivity, an element that has proven extremely useful since the pandemic hit Europe earlier than North America;

iv) focus on opex/scale benefits; and v) increased activity on new store openings, and of course, opportunistic acquisition.”

* Canadian Natural Resources Ltd. (CNQ-T) with an “outperform” rating and \$60 target. Average: \$63.11.

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 with superior free cash flow generative power.”

* Canadian Pacific Railway Ltd. (CP-T) with an “outperform” rating and \$115 target. Average: \$105.29.

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.”

* Telus Corp. (T-T +0.20%increase) with an “outperform” rating and \$32 target. Average: \$31.75.

Analyst Drew McReynolds: “In our view, no other company in our coverage has as many potential sources of upside to our NAV as TELUS does. We believe the key strategic benefit of the \$1.5-billion of accelerated investment in 2021 and 2022 is an even stronger competitive position: (i) broader FTTH (fiber-to-the-home) coverage, increasing from 80 per cent of the long-standing targeted FTTN footprint currently to 90 per cent by the end of 2022; (ii) a substantial portion of the wireline customer base on FTTH by the end of 2022 with positive implications for product intensity and churn reduction; and (iii) enhanced capex flexibility beginning in 2023 given substantial completion of the FTTH build, which should enable TELUS to capitalize on new 5G growth opportunities without meaningful capital constraints, opportunity costs, or FCF impairment. Relative to our current forecast, we see multiple sources of potential NAV upside including: (i) incremental cost-savings associated with FTTH migration and copper decommissioning; (ii) additional wireline margin expansion driven by Internet flow-through, cloud-migration, and/or improved B2B/TELUS Agriculture profitability; and (iii) the crystallization of TELUS Health and TELUS Agriculture. Longer-term, given the company’s unique asset mix and under certain operational and regulatory conditions, we see strong strategic and financial rationale for TELUS to explore a transformational reorganization that can fully unlock the value of the company’s core infrastructure assets and growing technology assets.”

Other additions to the global list are:

- M&T Bank Corp. (MTB-N +4.44%increase);
- Mastercard Inc. (MA-N -1.09%decrease);
- R1 RCM Inc. (RCM-Q);
- TransDigm Group Inc. (TDG-N -0.24%decrease);

- Vertex Pharmaceuticals Inc. (VRTX-Q);
- Wesco International Inc. (WCC-N +3.18%increase).

The returning stocks also included:

- Alexandria Real Estate Equities Inc. (ARE-N +1.70%increase);
- Amazon.com Inc. (AMZN-Q);
- American International Group Inc. (AIG-N +1.65%increase);
- ASOS PLC (ASC-LSE)
- Banco Bilbao Vizcaya Argentaria SA (BBVA-SIBE);
- British American Tobacco PLC (BATS-LSE);
- ConocoPhillips (COP-N +3.90%increase);
- CrowdStrike Holdings Inc. (CRWD-Q +5.46%increase);
- DuPont de Nemours Inc. (DD-N +0.50%increase);
- Genmab A/S (GMAB-Q);
- H & M Hennes & Mauritz AB (HM B-STO);
- Louisiana Pacific Corp. (LPX-N +0.99%increase);
- Royal Dutch Shell PLC (RDS-B-N +1.72%increase);
- S&P Global Inc. (SPGI-N -0.53%decrease);
- The Mosaic Co. (MOS-N +1.41%increase);
- Twilio Inc. (TWLO-N +2.92%increase);
- UnitedHealth Group Inc. (UNH-N -3.69%decrease)

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