2 Beaten-Up Market Leaders That Could Double

Description

The Canadian market is full of cyclical stocks that are really taking it on the chin lately. But cyclical they are, and that means the market will eventually rebalance and these companies should see better days.

When looking for contrarian picks, it is generally a good idea to place your bets on the market leaders. For this reason, I think investors should put **Goldcorp Inc.** (TSX:G)(NYSE:GG) and **Cameco Corporation** (TSX:CCO)(NYSE:CCJ) on their watch lists.

Goldcorp.

Goldcorp is often touted as the best pick of the big miners, although shareholders might not feel that way given the 50% haircut they have endured over the past five years. The slide has been brutal, but things look like they might be turning around.

Goldcorp's production is growing. In fact, the company expects output this year to be as high as 3.6 million ounces compared with just 2.9 million in 2014. Two new mines, Cerro Negro and Eleonore, are ramping up commercial production and those facilities should benefit investors in two ways.

Goldcorp spent US$2.2 billion on capital projects in 2014, but only plans to shell out US$1.4 billion this year because the new facilities are switching from development to production. That means an additional US$800 million in cash flow could be available for paying debt or supporting the dividend.

Higher output should translate into better cash flow, especially if gold prices continue their recent recovery. Goldcorp had all-in sustaining costs (AISC) of US$949 per ounce in 2014. Cerro Negro produced 92,600 ounces in the first quarter at an AISC of just US$704 per ounce.

Goldcorp has a strong balance sheet and pays a dividend that yields 3.6%. The company just sold off a non-core mine and recently increased its available credit facilities. At this point the dividend looks safe.

Cameco Corporation

The uranium market has been in the dumps for a number of years, but that situation is unlikely to continue for much longer as new nuclear plants begin to come online.

Cameco just signed an important deal with India to supply 7.1 million pounds of uranium concentrate over the next five years. India is the world's second-fastest growing nuclear energy market with 21 reactors in operation and another six under construction that should be in service by 2017. Those 27 units have a total capacity of 10,300 megawatts.

By 2032 India expects to have 45,000 megawatts of nuclear capacity, and that's where the big opportunity lies for Cameco.

Cameco operates the world's largest uranium mine and controls some of the planet's richest deposits. Management has done an excellent job of reducing costs through the downturn, and once prices begin to firm up, margins should surge.

The stock is being held back by a tax battle with the CRA. Any decision that avoids a worst-case scenario would also put a tailwind behind the stock.

Should you buy?

Cameco and Goldcorp are volatile and investors have to be comfortable with that scenario, but the current upside potential probably outweighs the downside risks.

In both the gold and uranium industries, history shows that stock prices tend to make big moves in a short period of time. At this point, gold and uranium are probably near the bottom of their current cycles. If the commodity prices reverse course, Goldcorp and Cameco could easily double in the next three years.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
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