



3 Natural Resource Stocks With Big Upside Potential

Description

Investing in natural resource stocks can be tricky.

As we've seen in the last couple of years, falling commodity prices can wreak havoc on even the best-managed producers. If a company needs a certain price for a commodity to remain profitable and the commodity dips below that price, bad things happen. That's basic economics.

But at the same time, such a phenomenon can offer some tremendous opportunities. When investors hate certain commodities, they really punish producers. This leads to share prices that get absolutely decimated.

Meanwhile, the management teams of these depressed stocks are taking prudent steps. They're doing things like instituting hedging programs, cutting costs, and laying off overpriced workers.

This is when things really start to get interesting. This better cost structure really shows when commodity prices start to recover. Investors know these producers have massive operating leverage and respond by sending prices much higher in a hurry.

Investors want to catch this price action before it happens.

Take **Teck Resources** as an example. In January weak prices for commodities like coal, oil, and copper sent shares reeling all the way to under \$5 each. Just seven months later shares are almost \$19.

That's the kind of return that can really make a difference in a portfolio. Here are three stocks that have that kind of potential in three different commodities.

Baytex

After flirting with \$50 per barrel earlier this year, the price of oil has faltered. A barrel of West Texas Intermediate trades hands for about \$42 as I write this.

Baytex Energy Corp. ([TSX:BTE](#))([NYSE:BTE](#)) has turned into a proxy on the price of crude. When oil goes up, so do Baytex shares. When crude inches lower, Baytex shares follow. Often the move in Baytex shares is much more pronounced than the corresponding move in oil.

This relationship makes Baytex an excellent choice for investors looking for a way to make a lot of money when crude eventually heads much higher.

Unlike many of its competitors, Baytex is well poised to weather this storm. It has no major debt due until 2022. Its breakeven price in the Eagle Ford area of Texas is approximately \$35 per barrel. It generates enough internal cash flow to pay for its drilling program. And the company has been successful in cutting costs aggressively.

In 2015 when oil traded at \$60 per barrel, Baytex shares were \$20 each. This suggests shares have an upside potential of more than 300%.

Cameco

It's been a tough few years for the uranium business.

First, it had to deal with the Fukushima disaster, which caused several countries to rethink their future nuclear power plans. Then both solar and wind energy became much more prominent, further weakening future nuclear demand. The low price of competing power sources like coal or natural gas hasn't helped either.

But things are looking up, at least a little. Japan is in the process of restarting many of its nuclear plants. China continues to expand into nuclear energy. And capital is cheaper than ever, which means building these plants has become more economical.

This growth is good news for **Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)), even though the price of uranium recently hit fresh new lows. If the company can maintain its low-cost production and the price of the commodity inevitably goes up, it'll be good news for shareholders.

Potash

While the near-term future of the potash business doesn't look great due to oversupply in the market, the long-term future for **Potash Corporation of Saskatchewan Inc.** ([TSX:POT](#))([NYSE:POT](#)) looks to be fantastic.

As the world's population grows and farmers everywhere get richer, they'll be able to afford greater input costs. In fact, with crop yields becoming more and more important just about everywhere, I'd argue these farmers can't afford to go without. There's just too much capital chasing the sector right now.

But investors will have to be patient and perhaps endure another dividend cut before Potash gets out of its current funk. There will likely be big rewards for investors who do so.

CATEGORY

1. Energy Stocks

2. Investing
3. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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2. TSX:BTE (Baytex Energy Corp.)
3. TSX:CCO (Cameco Corporation)

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