Should Investors Buy These 2 Commodity-Based Companies?

Description

Investing in commodity-based companies can be ~~a~~ risky, but doing so has the potential to generate significant returns. Since the demand for commodities is cyclical, investors try to buy commodities when they are low in value to realize large returns when the commodity's demand increases. However, this buy low/sell high strategy could result in significant losses.

Although there are risks associated with commodities, there are some great companies within these industries — companies with low-cost advantages and leadership positions that can mitigate the damage when market demand is low and generate larger profits when demand is high. Therefore, if investors are seeking exposure to commodity-based companies, they should stick with the big players.

Teck Resources Ltd. (TSX:TECK.B)(NYSE:TECK) and **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) are two commodity-based industry leaders with cost advantages. Should investors be adding these stocks to their portfolio?

Teck

Teck is a diversified mining company with exposure to commodities such as copper, coal, lead, and zinc. In 2016, the stock had an astronomical rise from $4.45 in January to $34.84 in November! The stock has since leveled off in the high $20s, but with high markets prices for copper and zinc, the company has been able to continue to generate significant cash flows and pay down its debt.

However, with the stock's significant run in 2016, and some of its top-earning commodities at the peak of their cycle, investors probably have missed the entry point for this stock and could fall victim to the downturn in the cycle.

Cameco

Cameco is the second-largest uranium provider in the world. It has two significant advantages over its competitors: a low-cost structure and high-grade deposits.

The company is able to produce uranium for approximately $21/pound. Therefore, even when uranium was at an all-time low of $30/pound in December 2016, the company was still able to generate some profits from uranium sales.

As for its uranium deposits, the company has some of the highest-grade deposits in the world. Its ore grade concentrations are 100 times higher than the industry average. Therefore, if uranium prices rebound, there is a strong likelihood customers will desire Cameco's offerings.

Foolish bottom line

Even with cost advantages and leadership positions, a commodity-based company's performance will ultimately be dictated by the market demand of the related commodity. Therefore, Foolish investors should refrain from making these types of companies core holdings in their portfolios.

However, if you're looking to diversify your holdings and get exposure to commodities, I'd recommend Cameco over Teck at this time. Uranium prices are beginning an upward trend, and there is greater potential upside with Cameco than Teck.

Fool on!

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:CCO (Cameco Corporation)
4. TSX:TECK.B (Teck Resources Limited)

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