Should Cameco Corp. or Suncor Energy Inc. Be in Your Portfolio?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) and **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) are two of Canada's top commodity stocks.

Let's take a look at their current situations to see if one deserves to be on your buy list.

Cameco

Cameco's long-term shareholders are looking at the stock chart and wondering when, if ever, things will finally turn around.

How bad has it been?

Cameco was a $40 stock in early 2011 when uranium sold for US$70 per pound. Then the tsunami hit Japan, and the bottom fell out of the market.

In the wake of the disaster, Japan shut down its entire fleet of nuclear reactors, and uranium prices subsequently plunged, taking the share prices of the producers down with it.

Today, uranium sells for close to US$20 per pound, and Cameco's stock can be picked up for about $12 per share.

Fans of the company say the long-term outlook for the uranium industry is positive, as more than 50 new reactors are under construction, and many more are planned. In addition, the producers have delayed expansion projects, which could lead to a shortage in the market in the coming years.

That might turn out to be true, but secondary supplies continue to fill demand gaps, and the oversupplied situation is not expected to change in the near term.

On top of this, Cameco is caught up in a nasty battle with the Canada Revenue Agency over taxes owed on earnings generated by a foreign subsidiary. If Cameco loses the case, it could be on the hook for more than $2 billion in taxes and penalties.

Suncor

Suncor has survived the oil rout in pretty good shape. In fact, the stock price is close to where it was three years ago, just before oil began to crash.

The reason for the relative stability lies in Suncor's diversified business lines. The company is primarily known as an oil sands producer, but Suncor also owns refineries and more than 1,500 Petro-Canada service stations.

The downstream assets have performed relatively well over the past three years, and that has helped offset the tough times in the oil sands operations.

Suncor's balance sheet remains in good shape, and the company has taken advantage of the difficult market conditions to add strategic assets at favourable prices. As a result, Suncor should see strong returns on the investments when oil prices recover.

The company continues to raise its dividend, which currently provides a yield of 3%.

Is one more attractive?

Suncor is probably the better bet today if you want a commodity pick. Cameco should do well when uranium prices recover, but I would avoid the stock until the CRA situation is sorted out.

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