Are Teck Resources Ltd. and Cameco Corp. Top Contrarian Buys for 2018?

Description

After a long lull, shares of coal miner **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK) and uranium company **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) are showing some signs of life. While Cameco stock has reversed most of its losses from the past six months in recent weeks, Teck shares are up double-digit percentages in six months.

Both stocks are incredibly cheap right now, so should contrarian investors buy them for 2018? Only one of these stocks could be worth your money in 2018, as I explain below.

Teck Resources

Teck Resources reported a 36% jump in revenue and 156% surge in net profit for its third quarter. The growth isn't a fluke, as the upward trend has continued for several quarters now. For the nine months ended Sept. 30, 2017, Teck's revenue was up 54%, and net income jumped more than five-fold to $1.78 billion.

Teck is mainly benefiting from a strong recovery in prices of steel-making coal, copper, and zinc. On top of that, management's aggressive efforts to clean up its balance sheet and restructure operations are paying off.

Just days ago, Teck announced a supplemental dividend of $0.4 per share in addition to its regular annual dividend of $0.2 per share. Including this dividend, Teck will have returned $578 million to shareholders in 2017 in the form of dividends and share repurchases.

Cameco

At a time when investors in Cameco were hoping for a recovery in uranium markets, the company stunned the market earlier this month by suspending operations at key mines, McArthur River and Key Lake in Saskatchewan, and cutting dividends by a huge 80%.

In hindsight, this could be a move in the right direction for Cameco, as the company is unlikely to suffer big losses his year because of depressed uranium prices and piling inventory. In October, Cameco reported a loss of $143 million for the nine months ended Sept. 30 versus a profit of $83 million in the year-ago period.

By cutting down production and dividends, Cameco can prevent its bottom line from bleeding further to some extent and save up some cash to survive the downturn.

Should you buy Teck Resources or Cameco for 2018?

The prospects for both Teck Resources and Cameco depend heavily on commodity prices. Teck's production, for instance, was flat during the first nine months of the year, but higher commodity prices drove up its profits.

That said, Teck isn't just a coal miner anymore, as it's also about to add oil to its portfolio by starting its Fort Hills oil sands operations. Fort Hills could be a game changer if Teck can produce profitably at a crude price of US$40 per barrel as estimated. With 2018 likely to be Fort Hills's first full-year of production, owning Teck shares as you step into 2018 could be a good idea.

I can't say the same for Cameco. The company's quarterly earnings could look ugly through 2018 if uranium prices don't improve, and that could pressure the stock price further or limit its upside. I doubt uranium markets will pick up so soon, which means you might be better off avoiding Cameco.

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