2 Canadian Commodity Stocks for Your Watch List

Description

Investors with a long-term bullish view on global growth should consider allocating part of their holdings to companies that are market leaders in key commodity sectors.

Let's take a look at **Nutrien Ltd.** (TSX:NTR)(NYSE:NTR) and **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) to see if one is an interesting pick right now.

Nutrien

Nutrien produces potash, nitrogen, and phosphate for the global wholesale fertilizer market. The company also operates a worldwide network of retail operations providing seed and crop protection products to farmers.

A multi-year downturn in fertilizer prices appears to be over or at least bottomed. Nutrien expects global potash shipments to hit record levels in 2018 and is seeing improvements in potash spot prices. Nitrogen is also improving, ad phosphate might be turning the corner.

Based on the improved outlook, Nutrien raised the bottom end of its earnings guidance for the year.

Efficiency gains from the merger of Potash Corp. and Agrium are already evident. At the end of March, the new company had achieved US$150 million in run-rate synergies and is targeting annual synergies of US$500 million.

The company is also making strategic acquisitions while it works through its integration process. Nutrien purchased 29 retail locations in the first quarter and launched a new digital platform for growers. The company also just announced a deal to buy Waypoint Analytical, the largest agriculture laboratory in the United States.

A late start to the spring and rail issues in western Canada had an impact on Q1 2018 earnings, but the numbers should be better when the Q2 report is released.

Nutrien pays a quarterly dividend of US$0.40 per share for a yield of 3%.

Cameco

Cameco is a major player in the global uranium market.

Uranium prices tumbled in the wake of the 2011 Fukushima nuclear disaster in Japan and remain under pressure. Spot prices currently sit around US$23 per pound at the time of writing, down from US$70 before the tsunami hit Japan.

Producers have cut output and cancelled development projects to meet reduced demand, but secondary supplies are keeping prices from staging any meaningful recovery.

Cameco has done a good job of reducing costs to ensure it survives the downturn. The company slashed its dividend late last year and suspended operations at its McArthur River and Key Lake sites. In the Q1 report, Cameco maintained its 2018 guidance, saying cash flow should be similar to 2017.

The company took an unexpected hit when TEPCO, a large customer, cancelled a long-term purchase agreement. Cameco has since filed a statement of claim for US$682 million. The arbitration hearings are expected to begin in Q1 2019.

In addition, Cameco is embroiled in a dispute with the Canada Revenue Agency. The trial for the 2003, 2005, and 2006 tax years wrapped up last September. The company expects a decision within the next year.

The upside

Japan is working through the process of restarting its fleet of reactors, and more than 50 nuclear facilities are under construction around the world, so the long-term outlook for uranium should be positive.

Investors can buy Cameco for $14.50 per share today. In early 2011, the stock traded for $40.

Is one a better buy?

Nutrien likely offers a better investment opportunity today. The fertilizer market is recovering and the company is in a strong position to capitalize on improving conditions. Investors might see the dividend increase next year, as rising prices and ongoing efficiency gains should translate into higher margins.

Cameco offers significant upside potential on a recovery in the uranium market, but there is little reason to step in and buy right now.

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2. NYSE:NTR (Nutrien)
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