2 TSX Stocks to Watch Amid the Commodity Supercycle

Description

Commodity prices have been soaring higher since late last year amid the looming economic recovery. China has been the focal point as the fastest-recovering economy post-pandemic. It has been relatively faster to curb the active cases and return to normalcy than Western economies.

Robust demand from Chinese manufacturing and steelmaking industries have notably encouraged commodity investors this year. Like industrial metals like silver and copper, energy commodities like crude oil and gas have surged to new highs recently. Many economists see this pick-up as the next commodity supercycle, which might continue for the next few years.

Here are two TSX stocks that look attractive for 2021.

Major Drilling Group

A small-cap TSX stock, **Major Drilling Group** (TSX:MDI) has seen a notable surge with commodities upswing. It is a $600 million drilling company that provides specialized services like deep-hole drilling, high altitude drilling, and directional drilling.

It does not have direct exposure to commodity prices. However, as metal prices soar, miners spend more on drilling, which ultimately benefits companies like Major Drilling.

Major Drilling is not a run-of-the-mill drilling company. Its specialized services allow miners to dig into less-approachable deposits. It generates a majority of its revenues from gold and copper miners. The positive outlook for these metals could bode well for Major Drilling's earnings in 2021.

Industrial metals were muted for the last few years, and thus, the mining sector was at the receiving end. However, as the pandemic gradually wanes and economies recover in 2021, mining activities will ramp up.

MDI stock is up more than 40% in the last 12 months. It is currently trading close to its all-time highs. Conservative investors should trade with caution, driven by its volatile stock price movements and relatively smaller size.

Barrick Gold

It's been a couple of months in which **Barrick Gold** (TSX:ABX)(NYSE:GOLD) stock has been trading subdued. Many gold miner stocks have been rangebound since late last year. Despite robust growth prospects for the yellow metal, neither gold nor the mining stocks have moved higher.

Perhaps Barrick Gold may soon break the range as it reports its fourth-quarter earnings in the next few weeks. Solid production growth and relatively higher prices could uplift its earnings in the upcoming release. Those same factors notably benefitted the miner last year, in which it managed to double its profits.

Apart from the bottom line, how Barrick Gold manages to lower its net debt in Q4 will also be interesting to see. The miner has been aggressively repaying its debt and working to lighten the balance sheet.

Oversized stimulus packages could notably weaken the dollar, which will likely boost gold. Another backing for gold is the uncertain economic recovery. Investors will likely turn to the traditional safe haven amid the uneven economic growth and volatile equity markets. A higher gold price should boost miners like Barrick due to their positive correlation and underlying impact on earnings.

Barrick Gold stock is currently trading close to $29. The downside from here looks limited given the positive earnings outlook. The stock has already fallen enough from mid-2020 levels and could soar higher on better Q4 2020 numbers.

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Date
2025/08/20
Date Created
2021/02/09
Author
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