2 Top Stocks With Significant Upside Potential in the Next 2 Years

Description

Investors with cash to deploy are trying to figure out which undervalued stocks might offer a shot at big gains in the next couple of years.

Why Kirkland Lake Gold looks attractive

Kirkland Lake Gold (TSX:KL)(NYSE:KL) is a gold producer with mines in Canada and Australia. The stock chart of the company is impressive in an industry where extreme volatility has seen investors take major hits over the past decade. Kirkland Lake traded for $7 per share in early 2017. Today, the stocks trades near $48. It was as high as $73 last summer, so there is decent upside opportunity on rising gold prices.

Kirkland Lake finished 2020 with no debt. The company expects to produce 1.3-1.4 million ounces in 2021. All-in sustaining costs are expected to average US$790-$810 per ounce. That would make Kirkland Lake one of the lowest-cost producers among the senior miners.

The company said Q1 production came in above guidance. Recent positive drilling results at the Detour Gold mine suggest the overall deposit at the site is much larger than indicated in the current mineral reserves reports.

Gold trades near US$1,775 per ounce. Even if the price remains at this level, Kirkland Lake stands to generate significant free cash flow. The price of gold recently picked up a new tailwind after several months of weakness following the 2020 surge. Positive momentum in the gold market could continue through the end of the year, supported by weakness in the U.S. dollar. A major sell-off in crypto currencies could also drive gold higher.

Kirkland Lake implemented a dividend in 2017. The current payout provides a 2% yield.

If gold rallies through the end of the year, Kirkland Lake could take a run at the 2020 high. That’s roughly 50% upside from the current share price.

Suncor Energy appears undervalued

Suncor Energy (TSX:SU)(NYSE:SU) is Canada's largest integrated energy company with production, refining, and retail operations.

The integrated nature of the business historically protected Suncor against weak oil prices. Cheap oil inputs give refineries a chance to score big margins on finished products. At the same time, falling oil prices often lead to cheaper gasoline. This can translate into more road trips and higher sales for Suncor's roughly 1,500 service stations.

The 2020 oil crash was different in that the price collapsed due to falling demand as opposed to the typical pullbacks triggered by supply issues. Air travel restrictions and closed offices reduced fuel demand, hitting refineries and retail outlets. As a result, the downstream business units that normally provide a nice hedge for Suncor's revenue also took a hit.

The board cut the dividend by 55% last year. The new payout level should be safe and offers a 3.3% yield at the current share price near $25.50.

A third COVID-19 wave in Canada means restrictions will likely remain in place well into the summer months, but the situation should improve in the fall once vaccinations become widespread. The U.S. is already seeing the benefits of its vaccination programs. Gasoline demand is soaring, and the airlines are getting ready to boost capacity ahead of an expected surge in holiday bookings.

Suncor traded above $40 per share in early 2020 when oil was slightly cheaper than the current price. As the economy opens up, the market should start to see the opportunity in the stock. It wouldn't be a surprise to see Suncor top $30 before the end of the year and rise to $40 in 2022.

The bottom line

Kirkland Lake and Suncor appear cheap in an otherwise expensive market. Volatility should be expected, but these stocks have the potential to deliver big gains in the coming months.

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aswalker