Should You Buy Suncor (TSX:SU) or Teck Resources (TSX:TECK.B) Stock on a Pullback?

Description

Suncor (TSX:SU)(NYSE:SU) and **Teck Resources** (TSX:TECK.B)(NYSE:TECK) just pulled back after strong rallies in the past few months. Investors who missed the big gains want to know if Suncor stock or Teck Resources stock is undervalued and now a buy.

Suncor

Suncor's integrated business structure historically helped insulate the company from falling oil prices. When the oil market saw supplies rise, prices would drop. This hit the margins on the upstream production division but also drove down crude feedstock costs for the refining operations. The refineries often see an increase in profits on the finished products in that scenario. Low oil prices also tend to result in cheaper gas prices, helping boost visits to Suncor's roughly 1,500 retail outlets.

The pandemic has been different in that a drop in fuel demand caused the crash in oil prices. With commuters at home and airplanes grounded, all three of Suncor's business units got hammered.

Vaccinations are ramping up, and developed economies are planning to ease restrictions. This bodes well for gasoline and jet fuel demand in the coming months. At the same time, WTI oil continues to maintain its gains above US$60 per barrel, providing Suncor's production business with an opportunity to generate excess cash flow.

Suncor cut its dividend by 55% in 2020. The decision didn't go down well with income investors, and the market punished the stock accordingly. Management is using surplus cash to reduce debt and buy back shares this year. Investors could see the distribution start to increase again in 2022.

Suncor trades near $27.50 at the time of writing. That's down from $29 a few days ago and well off the $40 price investors paid right before the pandemic when oil was actually lower than its current price.

Teck Resources

Investors who had the courage to buy Teck Resources in March 2020 are sitting on some fantastic gains. The stock rallied from a low near $9 per share to a recent high above $31.

Teck produces copper, zinc, and steelmaking coal. Copper prices went from US$2 per pound last year to a recent record close around $4.75. The market pulled back in the past few days, and Teck's stock price is down to $27.50. Steel demand is soaring, and copper appears set to extend its strong run, as the United States and other countries unleash trillions of dollars in stimulus spending to assist the economic recovery.

A strong focus on renewable energy is positive for copper. The metal is a key component in the manufacturing of electric vehicles, wind turbines, and solar panels. New mining projects will take time to get going after companies shelved or delayed investment in the past few years. As a result, copper prices should continue to move higher.

Teck's stock has a history of delivering massive rallies followed by devastating crashes. You want to make sure you get in early enough on the rebound and pay close attention to the commodities markets in order to exit the position before the cycle peaks.

Volatility should be expected with more daily surges or dips of 10% likely on the way. At the current price, the stock appears attractive, but you have to be willing to ride out some near-term turbulence.

Is one a better bet?

Suncor and Teck both look attractive right now for investors who want to play the rebound in the commodity markets. If you only choose one, I would probably make Suncor the first choice today and look to add Teck Resources on additional weakness.

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