



2 Cheap Canadian Stocks to Buy in July 2021

Description

The **TSX Index** is getting a bit expensive, but investors can still find [undervalued](#) Canadian stocks for their portfolios.

Barrick Gold

Barrick Gold ([TSX:ABX](#))(NYSE:GOLD) trades near \$26.50 per share at the time of writing, compared to \$40 in early August last year. The price of gold is about US\$1,800 right now. It hit a high of US\$2,080 last summer.

The 35% drop in Barrick Gold's share price appears overdone, especially when you look at the strength of the company's balance sheet and the firm's potential to generate significant free cash flow. Barrick Gold has zero net debt and reported Q1 2021 all-in sustaining costs of US\$1,000 per ounce. That makes its production very profitable at today's gold price and investors should see robust Q2 2021 earnings.

The 10-year yield on U.S. treasuries bottomed out around 0.5% around the same time the price of gold peaked in 2020. A subsequent surge in the 10-year yield took it to 1.75% in March. That's when gold dipped below US\$1,700. The 10-year is back down to 1.34%. Gold is catching a bit of a tailwind as a result, yet gold stocks are still dragging their feet.

China's crackdown on bitcoin mining and other uncertainties in the cryptocurrency has led to a 50% decline in the price of bitcoin from the 2021 highs. Investors who dumped gold to play the bitcoin rally might shift back to the yellow metal if cryptocurrencies continue the sell-off.

Central banks around the world might also ramp up [gold purchases](#) in the coming months and through 2022 as a measure to protect against inflation.

Barrick Gold is flush with cash and investors could see another generous dividend increase in the next few months. The company is already giving shareholders a bonus return of capital of US\$0.42 per share this year on top of the US\$0.36 in annualized dividends.

If you are a gold bull, Barrick Gold stock deserves to be on your July buy list.

Baytex Energy

Baytex ([TSX:BTE](#))(NYSE:BTE) used to be a dividend darling in the Canadian energy patch, but the oil crash that began in 2014 caught the company with high debt taken on to make an expensive takeover at the peak of the market. As margins plunged, Baytex had to eliminate the payout and investors watched in horror as the share price went from \$48 to an eventual low near \$0.40 last year.

The rebound in oil prices off the 2020 lows is putting new life into the Canadian energy sector. Baytex already saw its share price bounce back as high as \$2.58 and currently trades near \$2.35. West Texas Intermediate (WTI) oil is above US\$75 per barrel compared to US\$36 last October and could go higher.

OPEC+ failed to agree on supply increases in recent days, providing additional support to the market. Even if the group starts to ramp up output the oil market could remain tight for a few years. Producers cut billions of dollars of investment spending in the past year to protect cash flow. It will take time for that to reverse.

Meanwhile, fuel demand is set to ramp up through the end of the year as travel restrictions ease and people start heading back to offices.

Baytex owns attractive assets and should be able to reduce debt quickly if oil prices hold near today's prices. The stock can be volatile, but there is potential for more strong gains, especially if oil moves past US\$80 as many analysts now expect.

The bottom line on cheap stocks

Barrick Gold and Baytex look undervalued in an otherwise expensive market. If you have some cash to put to work today these stocks deserve to be on your radar.

CATEGORY

1. Investing

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1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)
3. TSX:BTE (Baytex Energy Corp.)

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