1 Cheap Canadian Stock to Play the Commodities Rally

Description

Commodity prices are on a roll in 2021, and the rally could extend through 2022, as the global economy recovers from the pandemic. Investors who missed the initial surge can still find undervalued stocks that should benefit from the commodities boom.

Teck Resources

Teck Resources (TSX:TECK.B)(NYSE:TECK) is a diversified Canadian mining company producing metallurgical coal, copper, and zinc. The company is also a partner in the Fort Hills oil sands facility.

Teck Resources stock has a history of being very volatile. The company generates truckloads of cash flow and profits when commodity prices soar. It also tends to crash much more than the broader market when the global economy hits a rough patch and commodity prices tank.

As such, investors have to keep an eye on the markets for Teck's core products. You want to buy this stock in the early stages of recovery cycles and secure profits before too much supply hits the market just as demand begins to weaken. Nobody has a crystal ball, and the rebound can be messy, but there is an opportunity to make some good money during the sweet spot of the commodities recovery.

Copper market

Copper, in particular, should do well in this cycle. Governments around the globe are throwing money at green energy projects and electric vehicle infrastructure. Solar panels, wind turbines, and electric cars all use significant copper in their production process. At the same time, corporate employees around the world who are now spending more time working from home are investing in new appliances, which also use a lot of copper.

Teck is about 50% of the way through the development of a large new copper project. It is one of the few new supply sources that will be available in the next few years to help meet rising demand. Copper soared from US$2 per pound in March 2020 to as high as US$4.75 in May 2021. The base metal currently trades near US$4.30 per pound. That's a very profitable price for Teck. In the Q1 2021 report, the company provided net cash unit cost guidance of US$1.30 to $1.40 per pound.

Metallurgical coal

Metallurgical coal (coking coal) is used by steelmakers. Global steel demand should rise, as the economic recovery kicks into gear and government stimulus projects start to get underway. New bridges and other traditional infrastructure expansion programs are popular government initiatives to boost the economy. The wave of spending should push up worldwide steel demand in the next few years.

Met coal prices took off during Q2 2021 and the upward trend could extend through the end of the year and into 2022. Teck has also benefitted from a trade dispute between China and Australia. Teck's coal sales to China have increased as a result.

Opportunity

Teck's share price bottomed out near $9 in March 2020. It has steadily recovered over the past year and hit a 2021 high above $31 in May. At the time of writing, investors can buy the stock near $28 per share. The trend higher should continue over the next 12-18 months based on previous cycles.

Teck soared from $5 in 2003 to $50 in 2007. It crashed back to $5 during the financial crisis and rebounded to $60 in 2011. The next slump saw it fall to $5 again in 2015 before rebounding to $38 in 2018. In the current recovery, I would expect the stock to take a run at $40 in the next couple of years with a potential surge to $50 as copper and met coal supplies get tight.

The bottom line on top commodity stocks

Investors should expect volatility as the commodity sector rebounds, and it is important to book profits before the peak of the cycle. That said, Teck looks attractive right now and should deliver some good gains in the coming 12 months. If you are searching for a top commodity stock to play the copper and steel recovery Teck deserves to be on your buy list.

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