



2 Top Commodity Stocks to Buy in September

Description

Commodity stocks are starting to catch a new tailwind as investors shift focus to the expansion of the global economy over the next couple of years.

Canadian Natural Resources

Canadian Natural Resources ([TSX:CNQ](#)) ([NYSE:CNQ](#)) is Canada's largest energy company with a market capitalization of \$50 billion. A strategy of owning a diverse asset base across the hydrocarbon sphere sets the business apart from its peers. Canadian Natural Resources also owns some key infrastructure and arguably possesses the best overall resource portfolio in the Canadian energy industry.

The pandemic hit the energy sector hard, and many stocks continue to struggle despite the rebound in the price of oil. Canadian Natural Resources saw its share price drop from \$40 to \$12 at the start of the pandemic, but the market quickly realized the pullback was overdone and shares have steadily rebounded on improved oil prices.

Canadian Natural Resources maintains a strong balance sheet and generates significant cash flow at current oil and natural gas prices. Demand for oil and natural gas should enjoy a good tailwind in the coming months and through 2022, supporting existing or higher prices.

The board raised the [dividend](#) by 11% in 2021, marking 21 straight years of dividend hikes. Investors could see an even larger increase next year due to strong market prices for its core products. Canadian Natural Resources is also buying back shares and reducing debt with excess cash. In the [Q2 2021](#) earnings report, the company said it expects 2021 free cash flow to be as high as \$7.7 billion.

Investors who buy the stock at the current price near \$44 per share can pick up a 4.2% dividend yield. I wouldn't be surprised to see CNQ top \$50 before the end of 2021.

Teck Resources

Teck Resources ([TSX:TECK.B](#))([NYSE:TECK](#)) is a major producer of metallurgical coal, copper, and zinc. As the global economy gets back on its feet and stimulus investments kick into gear, demand for these products is expected to surge.

Teck Resources rebounded off the 2020 low as a result of the rally in base metals. Copper currently trades around US\$4.20 per pound compared to US\$2 in March 2020. Zinc has bounced from US\$0.85 per pound to US\$1.35.

Europe and other regions are targeting stimulus investments at green energy projects. Solar panels and wind turbines use significant copper in their manufacturing process, as do electric vehicles. The result should be strong demand for copper for several years.

The second tailwind for Teck Resources is coming from metallurgical coal, otherwise known as steelmaking coal. Steel demand is very strong right now and China is a major producer. China has recently ramped up purchases from Teck Resources at elevated prices. This is due to the closure of the [Mongolian border](#) caused by COVID-19 and a trade dispute with Australia. Both Mongolia and Australia typically supply large amounts of China's steelmaking coal. While shipments from Mongolia have recently resumed, the metallurgical coal market remains tight.

Despite the nice bounce off the 2020 lows, the stock looks undervalued right now at \$30 per share. Assuming the rally in the base metals and met coal holds up, this stock should move meaningfully higher in the coming months and through 2022. Teck Resources becomes a cash machine when commodity prices rise.

The bottom line

While ongoing volatility should be expected, Canadian Natural Resources and Teck Resources should be solid picks right now for investors seeking top commodity plays heading into 2022.

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3. TSX:CNQ (Canadian Natural Resources Limited)
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