These 2 Commodity Stocks May Be Super Cheap

Description

Commodity stocks take turns being in favour. Right now, these commodity stocks appear to be super cheap. Let's take a closer look.

Gold stocks

It's easy to tell that gold stocks are out of favour right now. **iShares S&P/TSX Global Gold Index ETF**, whose top holdings include **Newmont** (TSX:NGT)(NYSE:NEM), **Barrick Gold**, and **Franco-Nevada**, is down about 38% from its 52-week high. Particularly, Newmont makes up a significant percentage — about 20% of the fund.

Let's dig a bit into Newmont to get some idea about what may be going on with gold miners. This year, the large gold miner has experienced higher costs from inflationary pressures, including higher labour, fuel, and energy costs. Additionally, gold prices are down about 5% from a year ago. The combination of higher costs and lower commodity prices doesn't bode well for its bottom line. The same goes for its peers.

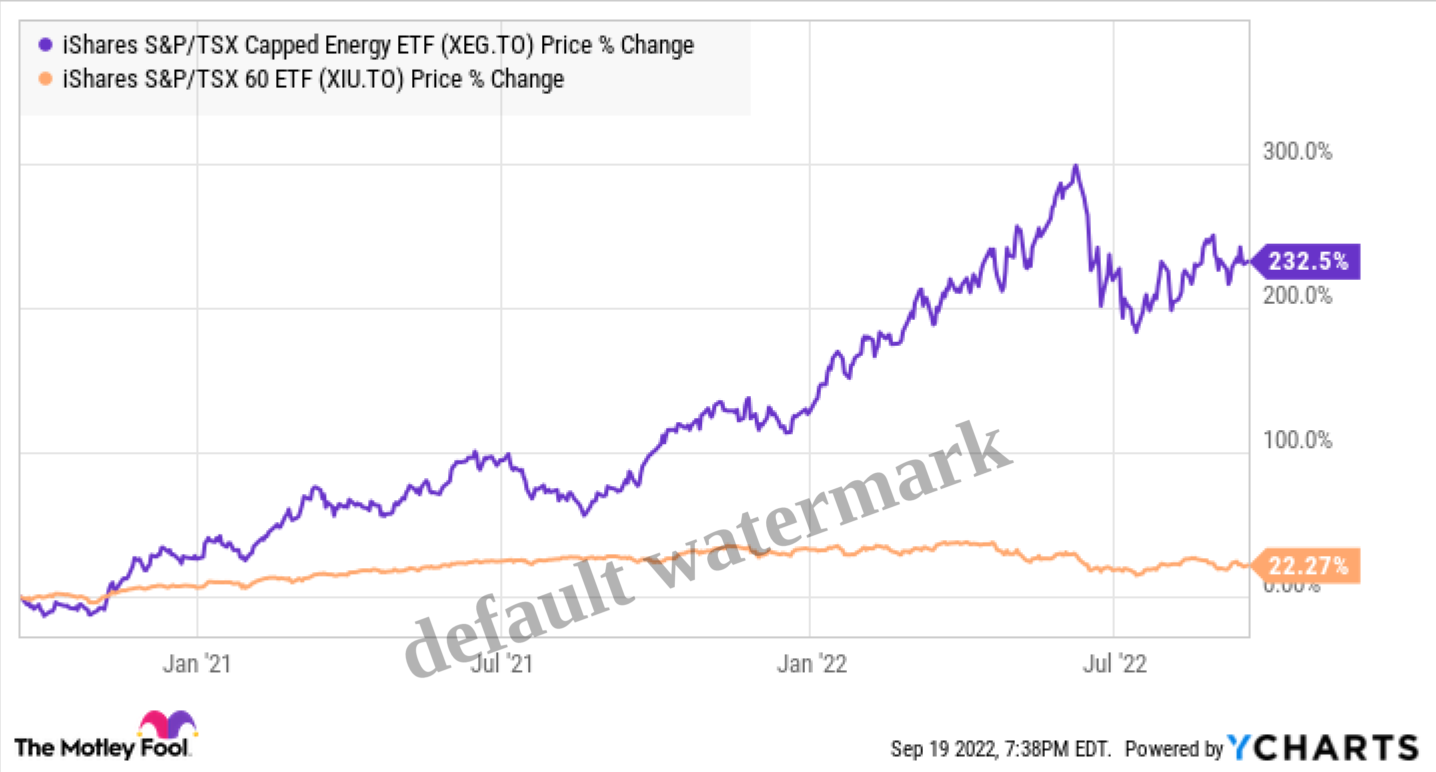
That said, the gold stock has one of the strongest balance sheets in the space. Its valuation is also at the lowest since 2016. So, it may be a suitable idea for contrarian investors who believe some macro event could trigger higher profits in gold stocks at some point in the future, as has happened in the past.

You'll also notice that the gold stock yields close to 5%. However, it's important to note that the commodity stock has cut its dividend in the past and will do it again if the operating environment is bad enough. So, investors should treat the dividend as a bonus on top of potential price appreciation.

Gold miner ETFs like iShares S&P/TSX Global Gold Index ETF provide more diversification in terms of reducing company-specific exposure, which is a good way to reduce risk and spread your capital around if you believe gold stocks are too cheap to ignore.

Energy stocks

Energy stocks have been in a better position than gold stocks. Thanks to higher energy prices, many energy stocks appear to be super cheap still, despite their outperformance to the market in the last couple of years, as shown below.



XEG data by YCharts

Specifically, Eric Nuttall, an expert in the energy sector and a senior portfolio manager at Ninepoint Partners, picked **MEG Energy** (TSX:MEG) as one of his "highest-conviction ideas" last week on *BNN*:

> "MEG Energy has 35 years of stay flat inventory with less than three times cash flow. It's trading at 30% free cash flow and aggressively paying down debt. We're expecting the company to buy back 42% of its shares. We're also expecting a multiple of six times or a $42 share price."

If that price target materializes, it'd be price gains of almost 130% from the recent quotation of $18.29! Notably, that is likely a longer-term target, as the 12-month analyst consensus price target is $24.88 right now, which represents near-term upside potential of 36%.

Aside from its price-appreciation potential, the company paid back $801 million of debt and performed net share buybacks worth $70 million in the first half of 2022. Its trailing 12-month free cash flow generation surpassed $1 billion and is 2.4 times the normalized levels in 2019.

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1. Investing

2. Metals and Mining Stocks

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2. TSX:MEG (MEG Energy Corp.)
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