Don’t Expect any Miracles when Cameco Reports Third Quarter Earnings this Week

Description

It’s been a tough couple of years for uranium miner **Cameco Corporation** (TSX: CCO, NYSE: CCJ). The company’s shares fell sharply after the tsunami induced Fukushima Daiichi nuclear disaster in March 2011 and have essentially traded in lockstep since with the price of uranium, which now sits at prices not seen in over five years.

After the disaster in Japan, many countries noted for their support of nuclear power scaled back on nuclear dependency and even scrapped plans for future reactors. With little sign of a recovery in the price of uranium, it could be rough road ahead for Cameco.

What do the analysts think?

The overall analyst outlook is surprisingly positive with nine rating it a buy or outperform and six rating the stock a hold. The outlook is only slightly more bearish from just three months ago when the numbers were eleven and five, respectively.

Earnings estimates have always varied widely among analysts for this name. The upcoming quarter is no exception. Estimates range from a low of $0.10 per share to a high of $0.26 with a consensus estimate of approximately $0.19 per share for the third quarter.

What happened last quarter?

The company missed consensus estimates last quarter by $0.04 with earnings coming in at $0.15 per share. In addition to weak uranium prices, poor performance by the company’s electricity business, which faced reduced output and lower realized prices, was another issue. The company’s portfolio of fixed contracts continued to produce strong sales and provide a cushion for earnings. However, current contracting volumes remained light as buyers took a wait-and-see approach.

What is new since the last report?

Unfortunately for Cameco, not much has changed in the world of uranium since last quarter. After a decline of over 10% at beginning of the third quarter, uranium prices have stabilized the last few months, but the outlook remains tepid.

In the second quarter earnings release management announced the company expected capital expenditures to increase an additional 15% to 25% on its 50% owned Cigar Lake project. The increase was due to an expanded scope, and increased costs at the mine and mill. At the time of this announcement, management believed production would begin in late 2013.

Last month, the company provided a further update on Cigar Lake and advised shareholders additional delays and expenses are on the horizon . Management now expects ore production to begin in the first quarter of 2014 and the mill is expected to be online by the end of the second quarter. The additional expenses are not anticipated to be material and at this point management has not adjusted production guidance for 2014. However, investors should be looking closely at any updates regarding Cigar Lake in the upcoming earnings release and conference call.

Final thoughts

Since the nuclear disaster in Japan, the price of uranium has been in a near continuous downward spiral. It is difficult to say where the bottom may be, but I would not be rushing to get into this stock in front of the upcoming earnings report.

There are rumblings of potential supply shortages coming to the uranium market, but time appears to still be on the side of investors looking to make their way into this damaged market. When uranium prices do finally begin to recover, Cameco's stock will most like move up as well. However, investors may do well to miss the early move in the stock to make sure any rebound can be sustained long-term.

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2. TSX:CCO (Cameco Corporation)

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