



What Investors Need to Know About Cameco

Description

It's been a rough couple of years for uranium producer **Cameco Corp** ([TSX: CCO](#))([NYSE: CCJ](#)), from the radioactive disaster in Japan to the ending of the Megatons to Megawatts Program and even anti-Western tensions in Russia. These are all examples of some indirect issues facing Cameco, so let's take a look at a couple of direct issues facing the company to see if it's green with cash or green from a radioactive mutation of its books.

The taxman cometh

In an effort to shave some tax expenses from its books Cameco has earned the wrath of the Canada Revenue Agency. Back in 1999, the company made the decision to create Cameco Europe in Zug, Switzerland. The purpose of the new entity was to act as a reseller: Cameco would mine uranium, then sell it to Cameco Europe for U.S.\$10 per pound, who would then sell it to Cameco's customers, with this plan expected to be in place for 17 years. The issue is that while U.S.\$10 per pound was the market rate in 1999, things have changed since then — back in 2007, uranium was priced at U.S.\$140 per pound. This difference of \$130 per pound became taxable at Switzerland's 10% tax rate instead of Canada's 27% tax rate. Today uranium is priced around \$28.00 per pound.

By operating this way, Cameco has been able to avoid declaring \$5.7 billion in income over 11 years. This also means that Cameco has avoided paying \$1.6 billion in Canadian taxes, of which \$350 million would have gone to its home province of Saskatchewan. The CRA argues that since Cameco Europe is nothing more than a rented office at the law firm representing Cameco in Europe, it has "no business purpose". Thus, the income should be taxable in Canada, since all of the company's operations are performed by Canadians.

Even though Cameco is challenging the CRA it is still required to pay half of the bill plus fees and penalties until the matter is settled. Cameco handed over \$13 million last year and has handed over \$58 million so far this year. This is far from the \$650 million required to cover the bill until the matter is settled, and if Cameco loses the bill it will climb to at least \$1.6 billion. Perhaps this information sheds some light on the \$450 million sale of Cameco's stake in Bruce Power?

The adventures of the toxic investor

Even without this tax issue, Cameco is facing a global oversupply of uranium. The company and insiders were optimistic when Japan announced the reactivation of its reactors, but this has done little to help the nuclear commodity. Many believe that thanks to China's supply and the end of the Russian-American treaty, it could take up to the year 2020 for current supplies to dwindle. This may have played a part in Cameco pausing plans for its Millennium Mine project in Saskatchewan.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)

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