2 Companies Powering Your Portfolio With Uranium

Description

Since the atom was first split in the early days of the Manhattan Project, we have attempted to use this discovery to change how we view power. Although our harnessing of the atom has not been perfect, it has proven to be a viable alternative to coal and fossil fuels when it comes to electric power generation, as 1 kg of uranium-235 can be used to produce as much electricity as 1,500 tonnes of coal.

Aside from powering homes and making things go boom, there are a few other lesser-known uses for uranium. A contentious military application of the element involves using radioactively depleted uranium to create penetrating projectiles and armour plates. In terms of secondary civilian purposes, there is the growing medical field, which relies on radioactive isotopes from nuclear reactors and may soon face a shortage of isotopes in Canada.

Much like many metal commodities, uranium has been taking a beating on the market, falling from U.S.$72.63/lb in 2011 to U.S.$28.33/lb on Friday. The price has been bogged down by the disaster in Japan a few years ago, the end of the Megawatts to Megatons Program, a global oversupply, and now the growing contention between Russia and the West. This could affect the uranium market, as Moscow's close ally, Kazakhstan, is currently the largest producer of uranium, with Canada being the second-largest.

The drop in price has pulled miners' stock prices along with it, opening up some interesting mid- to long-range possibilities for investors. Let's take a quick look at a couple of Canadian companies attempting to make some green off of the radioactive metal.

The nation's top player

Canada's top player in the sector is **Cameco Corp** (TSX: CCO)(NYSE: CCJ), which has a sizable portfolio at home in Saskatchewan and in Kazakhstan. Cameco could take a couple of years to really turn around its stock price, for the company has not only been affected by uranium's rough patch but is also facing an investigation by the Canada Revenue Agency.

This investigation was sparked by some questionable bookkeeping that had the company sell all of its production through its Swiss subsidiary. This meant selling its mined uranium to Cameco Europe at prices from 1999, then selling the uranium at market price to customers, keeping the proceeds under Swiss tax jurisdiction.

In the last quarter, revenue missed analysts' expectations. Earnings were $131 million, or $0.33 per share, up from $9 million, or $0.02 per share. Its earnings were boosted by the sale of its share of Bruce Power. However, not including the sale, adjusted earnings were $36 million, or $0.09 per share. Revenue came in at $419 million, a 6% drop from the previous year; analysts were expecting $472 million for Cameco's last quarter.

The stock closed Friday at $21.90, right in the middle of its 52-week range of $17.95 to $28.57, and carries an average price target of $24.90.

A less direct way to invest

If you are looking for an alternate way to invest in uranium, a company such as **Uranium Participation Corporation** (TSX: U) would be worth investigating. The company is an investment holding company that has all of its assets in uranium, either in the form of uranium oxide in concentrates or uranium hexafluoride. The general administration and management of the company is provided by uranium miner **Dennison Mines** (TSX: DML).

The company has been losing some money as of late, with total equity dropping by $122 million to $480 million. Compare this to its $602 million in equity at the end of the quarter last year, and you can see the effects of the lower commodity price. The stock is trading near the low end of its 52-week range of $4.69 to $5.99, closing Friday at $4.86, but its average price target is sitting at $6.59 with a rating of outperform.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)
3. TSX:DML (Denison Mines Corp.)

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cameronconway