Buy This Beaten-Up Uranium Player While It's Still Cheap

Description

Delays in Japan's anticipated restart of its nuclear energy facilities have kept uranium prices low and are holding back the stocks of producers such as Canada's **Cameco Corporation** (TSX: CCO) (NYSE: CCJ).

Investors got a taste of the possible upside early this year when news that Japan was going to fire up its reactors again sent Cameco's shares rocketing 50% higher in just four months.

The Japanese restart hasn't panned out, though, and Cameco's shares have since pulled back.

Nuclear energy will continue to be an integral part of the global energy equation. China, India, and other growing nations around the world need nuclear power to keep up with the rapid increase in demand for electricity. Even the U.S. has plans to expand its nuclear power capabilities, although the recent natural gas boom may alter the number of new plants that get built.

According to the World Nuclear Association's June 2014 update, 434 nuclear reactors are currently in operation worldwide and 73 new reactors are under construction. China alone is currently building 29 nuclear units.

Another 172 global reactors are planned. This means the funding and approvals are in place and that the reactors should be operational within 10 years.

A further 309 reactors are proposed, meaning they could be built and operating within the next 15 years.

The WNA expects that by 2030, 74 reactors will close and 272 new ones will come on line.

Thus, the total number of reactors expected to be in operation by 2030 is 632. This represents an increase of about 46% from today.

What does this mean for Cameco?

Cameco is the world’s largest uranium producer. Spot prices for uranium are now hitting new lows below $30 per pound, but the company is still profitable because it is delivering uranium under long-term contracts at higher price points.

Five-year uranium spot price. Source: Cameco

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Five-year uranium spot price per pound
Source: Cameco

Tim Gitzel, Cameco's president and CEO, told analysts on the Q1 2014 conference call that current global uranium supply is about 150 million pounds, which roughly meets current demand. Cameco expects demand to reach 240 million pounds by 2023, so global supply will really have to ramp up to meet the future requirements.

Demand from new reactors and a reboot in Japan should signal the turn upwards.

Cameco is forecasting a total of 93 net new reactors added to the market in the next 10 years, and the company expects the annual growth in uranium demand to be 4% going forward.

In the meantime, Cameco continues to turn a profit by controlling production and reducing costs. It recently completed the sale of its ownership in the Bruce Power Limited Partnership, and the problems at its Cigar Lake mine appear to be resolved.

For patient investors with a long-term focus, Cameco is a good bet. Most of the bad news is built in so the downside risk should be limited at this point.

Once the market believes the bottom is in for the uranium market, Cameco could quickly double from its current price.

Dividend risks?

The $0.40 per share dividend remains in place, giving shareholders a 1.7% payout as they wait for better times.

One short-term risk to the dividend could be a requirement by the Canadian Revenue Agency that Cameco pay a tax penalty for an ongoing dispute. A decision by Cameco to postpone the dividend to cover a negative ruling could also put the shares under pressure for a short spell.

If uranium prices move significantly lower from current levels, the company might have to adjust the dividend or postpone it.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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