Should You Follow George Soros and Bet on Cameco Corporation?

Description

There are few people who can match the investing resume of billionaire George Soros. He is best known for shorting the British pound right before its devaluation, and has made other successful bets as well. Notably, he was right to be pessimistic before the financial crisis erupted, and was also optimistic right before the more recent recovery. In short, he is worth paying attention to.

In the last couple of years, he has been adding to his stake in uranium producer **Cameco Corporation** (TSX: CCO)(NYSE: CCJ). This investment has not worked out as well thus far, because uranium prices have gone against the industry ever since the Fukushima disaster in Japan. In fact, after peaking above U.S.$70 per pound in early 2011, the uranium spot price is currently stuck below $30.

Cameco has of course suffered from this fall in uranium prices. Since the beginning of 2011, its shares have gone down by nearly half. So is this an opportunity to go with Mr. Soros and bet on a rebound, or are more troubled times ahead?

The case for Cameco

There are plenty of signs that Mr. Soros is on to something. With uranium prices so low, producers are generally losing money. According to some estimates, the industry needs a uranium price above $70/lb just to break even. Thus, it's seemingly a matter of time before production gets cut, putting upward pressure on prices.

Furthermore, there are reasons to believe demand will recover. The key is Japan, which has been paying sky-high rates for electricity ever since shuttering its nuclear production. There are signs that this is turning around — in mid-July, Japan's Nuclear Regulation Authority approved the safety standards of two reactors in the country's south.

There are other factors to consider. For example, world uranium demand has consistently outstripped mine supply, which was only possible thanks to a nuclear disarmament agreement between the United States and Russia. That agreement ended in December.

The case against Cameco

The case for Cameco sounds overwhelming. Before you submit your buy order, though, there are some strong arguments the other way.

First of all, it may take a long time for uranium production to be cut. In fact, a report by the **Royal Bank of Canada** in early June predicted that uranium would remain in surplus until 2021, and that prices would rise very slowly until then. Concerns about mine supply are legitimate, but uranium supply has risen in the last two years, despite the low prices.

A nuclear recovery in Japan is also far from certain. A recent poll showed that 60% of the country is opposed to the restarts of the two nuclear reactors mentioned above. Over in the United States, cheap natural gas is showing to be a formidable rival to nuclear power.

Worst of all, Cameco's shares seem to be pricing in a rebound in uranium prices already. To illustrate, last year the company made $1.13 per share in adjusted earnings, when uranium prices were close to $40/lb. Now, even though uranium prices have fallen further, the company still trades above $20 per share.

Not worth it

It's rarely a good idea to bet against Mr. Soros. However, in this case, it seems that there's too much uncertainty hanging over the uranium market, and a recovery may take a lot longer than expected. For now, it's just not worth the risk.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date
2025/07/25
Date Created
2014/08/05
Author
bensinclair