Is Uranium About to Hit $75?

Description

Over the next couple of years you could make triple-digit gains in one of the most beaten-down commodities in the world: uranium.

It's not going to happen overnight. But as I'm about to show you, higher uranium prices are almost inevitable.

In fact, this might be the biggest 'no-brainer' investment I've seen in a while. And before the run is over, we could see prices double… or more.

Let me explain…

Negative sentiment can push asset prices to extreme levels. In some cases, prices can be pushed to levels that don't make any economic sense.

Uranium is a case in point. Following Japan's Fukushima Daiichi disaster, public sentiment towards nuclear power has soured to such a degree that many countries have shut down their reactors. Today, spot uranium prices are just under $30/lb, nearly 80% below the all-time highs hit in 2007.

Here's the problem: According to most industry estimates, the average cost to produce one pound of uranium is about $75/lb. You don't need an MBA to crunch these numbers. At current rates, miners are losing money on almost every pound of uranium they haul out of the ground.

That's exactly why the current situation won't last. Small miners will go bust. Larger producers will cut back production. Eventually, the laws of economics dictate that prices will rise to meet the cost of production — that's more than 150% over today's levels.

At the exact same moment, demand is starting to pick up. Just a few weeks ago, Japan's Nuclear Regulatory Authority gave the OK to start up two nuclear reactors. Europe's reliance on Russian natural gas may also put a halt on plans to phase out atomic power.

In addition to demand growth from developed markets, emerging countries are increasingly turning towards nuclear energy to fuel economic expansion. China aims to increase the number of atomic power stations in the country from a current 15 to 71 by 2020. India is expected to sign a trade deal early next month to begin importing uranium from Australia.

Fortunately for investors there are a number of ways to take part in the uranium rally. The safest way to profit is to buy **Uranium Participation Corp.** (TSX: U). This company simply stores uranium and its shares closely track the spot price of the underlying commodity.

However, my favourite way to play the uranium bull market is **Cameco Corp.** (TSX: CCO)(NYSE: CCJ). Because of the inherent leverage in the miner's business, the company's shares could rise even faster than uranium prices. And given that Cameco is the largest uranium producer in the world, the firm has the size and scale to survive the industry's current doldrums.

But one word of warning: the smart money is starting to catch on to this opportunity.

As my colleague Nelson Smith pointed out in a column last month, billionaire investor George Soros has accumulated a nearly $130 million position in Cameco. And in recent quarters, there has been a noticeable increase of hedge fund activity in smaller producers like **Denison Mines Corp.** (TSX: DML)(NYSEMKT: DNN).

Why are these Wall Street money managers quietly building positions in uranium miners? I'd say it could mean only one thing: they see a giant rally ahead.

CATEGORY

1. Investing

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

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