2 Reasons to Avoid Cameco Corporation, and 1 Stock to Buy Instead

Description

The last few years have not been good ones for shareholders of uranium producer **Cameco Corporation** (TSX: CCO)(NYSE: CCJ). After the disaster at Fukushima in March 2011, prices for uranium plummeted from over $70 per pound to just over $30 today. Cameco's share price has followed suit, sliding by about 50% since the disaster.

Many people, including legendary investor George Soros, are betting on a turnaround, though. There are some strong arguments for investing in the company — with uranium prices so low, nuclear power looks much more attractive, and production levels could drop. Both would support to the price of uranium, and thus Cameco's shares.

However, there are reasons to remain skeptical too. On that note, below are two reasons to avoid shares of Cameco, and one stock to consider instead.

Reasons to avoid Cameco

1. A long way back for demand

As the bull argument goes, Japan has been struggling with power costs ever since shutting down its nuclear plants. This is true, but it does not mean that nuclear power will come roaring back. Polls reveal that the Japanese population is still mostly anti-nuclear, and Prime Minister Shinzo Abe is not as popular as he was last year. As a result, he may have difficulty bringing back nuclear power.

Secondly, nuclear power faces some familiar obstacles in North America, such as problems with waste disposal and local opposition wherever a plant may be built. Also, with natural gas so cheap today, there is a viable alternative to nuclear — one that is much easier to implement.

2. An expensive share price

Even if the price of uranium goes up, Cameco's shares may not follow suit. A look at the company's stock price reveals why.

Cameco made $1.12 per share in adjusted earnings last year. At $22 per share, Cameco trades at nearly 20 times this number. It gets worse, though. Cameco earned this $1.12 per share when uranium prices were trading at nearly $50 per pound, so it seems that a uranium recovery is already built into the stock price, which means that there's much less upside to owning the shares.

A stock to buy instead: Potash Corp./Saskatchewan Inc.

Potash Corp./Saskatchewan Inc. (TSX: POT)(NYSE: POT) has some things in common with Cameco. For example, prices for its product are depressed, as is its share price. However, there are some important differences that make it a better investment than Cameco.

First of all, there are no substitutes for potash. In other words, the company doesn't have to worry about other forms of fertilizer replacing potash, which is what natural gas has done to nuclear energy. As long as we all need to eat, there should be demand.

Secondly, India has just elected a new Prime Minister, Narendra Modi. This is important, because Mr. Modi is a pragmatic, business-first politician. India currently has policies that discourage potash use, which are unaffordable for the country and will eventually have to be scrapped. The politics will be difficult, but Mr. Modi is the ideal person to take the issue on.

Finally, Potash Corp. trades at a very reasonable price, less than 12 times cash flow, according to Morningstar. If the story works out, Potash Corp.'s shares could see some big gains.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date
2025/07/24
Date Created
2014/08/26
Author
bensinclair