



Cameco Corporation: Is Now the Time to Buy?

Description

Just as investors were thinking about kicking the tires again at **Cameco Corporation** ([TSX: CCO](#))([NYSE: CCJ](#)), the company has decided to lock out its unionized workers and shut down the world's largest uranium mine.

The lockout shouldn't be a surprise as the United Steelworkers Union has been in contract talks with Cameco since the end of 2013.

This setback is just one more nuclear kick to the head of Cameco investors who have to be asking themselves "What's next?"

They have been hit with the tsunami disaster in Japan, problems at the Cigar Lake mine, the lowest uranium spot prices seen in almost a decade, and now a lockout.

To be sure, the road has been a rocky one for nearly three years. In 2011, the earthquake and tsunami in Japan destroyed the Fukushima Dai-Ichi nuclear power station, resulting in a total shutdown of nuclear facilities in the country. The result has been a constant slide in the uranium spot price, and Cameco's share price has been nuked along the way.

Light at the end of the tunnel

The darkest part of the night is the moment just before dawn and I think long-term investors should seriously look at picking up Cameco shares at current levels.

Here are the reasons why I am positive on the stock for the long-term.

1. Japan restart

Hopes of a reboot earlier this year were quickly dashed, as the Japanese government has been slow to approve reactor restarts amid strong public opposition.

The country has been forced to implement rolling blackouts as the country's electricity demand

outstrips supply. Japan is also racking up massive energy bills as it relies on expensive fossil fuel such as liquefied natural gas to try and produce enough electricity to fill the demand gap.

Eventually, the Japanese public will have to face the fact that the country simply cannot operate without reactivating some of the nuclear power facilities.

The move back to nuclear will take some time. You can't just flip a switch and be back in business. I suspect Japan's Sendai 1 and 2 reactors, the ones expected to come back on line first, might not be operating for another year, but they will be up and running at some point soon. Once that happens, the majority of the country's other 46 operable reactors should start to come online.

Rob Chang, the metals and mining head at Cantor Fitzgerald in Toronto, told Bloomberg that he expects more than 30 of Japan's reactors to be operating again by the end of 2018.

2. Uranium prices have bottomed

Uranium spot prices recently hit nine-year lows, falling below the \$30 per pound level.

In recent weeks the price has started to come back but remains near \$30.

Most of Cameco's uranium is sold at higher prices because it has long-term contracts in place with its customers.

Spot prices are likely to stay low in the short term because nuclear plants source most of their supply from long-term agreements and the current market environment has little excess demand beyond those contracts.

In the next three years, the demand for uranium on the spot market is expected to increase as long-term contracts expire. This will shore up the spot price.

Producers such as Cameco should start to see new contract activity in 2015.

3. Uranium demand over the next 10 years

Long-term demand is steadily growing. A number of new reactors are being built around the world, primarily in China and India where the electricity demand is set to explode as their industrial expansion and population growth continues.

Cameco expects more than 90 net new reactors will be added to the market in the next decade and annual growth in uranium demand should run about 4%.

Current global supply is about 150 million pounds and that is expected to reach 240 million pounds by 2023.

It is likely a supply shortage will occur as new production will probably not come to the market in time to meet the first bottleneck in the coming years.

4. Labour dispute resolution

Cameco says it is able to fulfill its contracts with other sources of supply while the negotiations

continue with the union. The mine shutdowns shouldn't last long and I don't expect the dispute to have a long-term impact on the stock.

CATEGORY

1. Investing

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1. NYSE:CCJ (Cameco Corporation)
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