Is Now The Time to Buy Shares of Cameco Corporation?

Description

If you’ve been investing in **Cameco Corporation** (TSX: CCO)(NYSE: CCJ), you’ve no doubt been patiently waiting for uranium prices to get a lift from decreased supply.

Some good news: that day has come! The bad news: that decreased supply has come from Cameco itself, and not for the right reasons. Canada’s largest uranium producer has shut down the world’s largest uranium mine, McArthur River, as well as the nearby Key Lake mill. In response, the global uranium price rose 3.2%, the largest single-day gain since November 2011.

On the bright side, Cameco can draw on other supply sources to meet its delivery commitments to customers, so this shutdown should not affect sales volumes for 2014.

On that note, below we take a look at Cameco shares. Is now a good opportunity to invest?

An eventual turnaround

The uranium market has been depressed ever since the Fukushima disaster in Japan, with prices having fallen by about half (even after Thursday’s bump). This has made profits very difficult to come by for producers, and Cameco hasn’t been able to escape the damage. On the demand side, depressed prices have made the economics of nuclear power very attractive.

So most observers believe the uranium market will have to turn around eventually. Some are even saying the long-term price should be up in the $70s, well above the low $30s price you’ll find today. The question is how long will it take?

Don’t hold your breath

Even with uranium prices depressed, supply has held up fairly well, even increasing in the last coupleof years. It's a reminder that mines aren't going to be shut down any time soon, even if profits are hardto come by. Contracts with employees can be difficult to unwind, especially if unions are involved. Andno one wants to shut down supply only to see competitors benefit, so the industry can become a gameof chicken.

Worse still, demand may take a long time to come back. Japan's potential nuclear restart is the biggest factor, but the country's population remains steadfastly opposed to nuclear power. And over in the United States, cheap natural gas from the shale revolution provides a viable alternative to nuclear power.

Are Cameco's shares cheap enough?

It seems that Cameco's shares are already pricing in a rebound for uranium prices. To illustrate, Cameco made $1.12 in adjusted earnings per share last year. And this came when uranium was trading at close to $50. Yet at $21.50, the shares trade at nearly 20 times this earnings figure.

So if uranium prices take longer than expected to recover, Cameco's shares could lag for a long time. Furthermore, this is of course a mining company, meaning that there are always operational issues that can derail plans. The recent labour dispute is just the latest example.

So at this point, your best bet is to avoid Cameco, even if the shares seem like a bargain. Remember, cheap stocks are cheap for a reason.

CATEGORY

1. Investing

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

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bensinclair