If You Don't Buy Cameco Corporation Now, You'll Hate Yourself Later

Description

One of the last cheap stocks in the country is finally moving higher… and triple-digit gains could be on the way.

It's not going to happen in a flash. But as I'm about to show you, a uranium bull market is almost inevitable.

Spot rates simply cannot stay as low as they are today. And before the run is over, we could see the company's share price double or more in lockstep.

Let me explain…

As long time readers know, 'terrible-to-less-terrible' situations can be an incredible source of low-risk profits.

'Terrible-to-less-terrible' is a phrase I use to describe buying assets that have suffered through hard times, digested the bad news, and are poised to run higher. It's around this time — when most people can't stomach the thought of buying an asset — that otherwise OK companies trade at a fraction of their intrinsic value.

That's the situation we have right now with uranium miners like **Cameco Corporation** (TSX: CCO)(NYSE: CCJ). As regular readers know, the price of uranium — the fuel that powers nuclear reactors — collapsed in 2011. Following Japan's Fukushima Daiichi disaster, a number of developed countries suspended or scrapped their nuclear power programs.

Shareholders watched as billions of dollars in market capitalization vanished in the following years and sentiment toward the sector has been terrible ever since. In short, it's 'terrible' for uranium right now.

Here's the problem: Today the price of uranium is so low, miners cannot recoup their cost of capital. Right now, uranium spot rates are around US$30 per pound. However, according to industry estimates, the uranium producers need prices around US$75 per pound to break even.

To put it simply, miners are losing US$45 on every pound of uranium they haul out of the ground. You don't need a PhD in finance to figure out that this is a great way to go out of business.

And that's exactly why the current situation can't last. Small miners will go bust. Big producers will shut down projects. And nobody will invest in future production.

Already we're seeing supplies tightened and demand from new markets like China and India is starting to pick up. Eventually, prices will rise to meet the cost of production. That's more than 100% over today's levels.

When that happens, uranium miners like Cameco could see a sharp bump in their share prices. Because of the leverage inherit in the company's business model, the company's profits could increase much faster than the underlying commodity. And as the largest uranium miner in the world, Cameco also has the size and scale needed to ride out the industry's current doldrums.

Of course, I'm not the first person to spot this opportunity. According to recent SEC filings, a number of smart money hedge fund managers including Ken Griffin, Stanley Drunkenmiller, and Ray Dalio have been silently accumulating positions in Cameco. Billionaire investor George Soros also owns a $44.7 million stake in the mining giant.

What could have these investors so excited about Cameco? I don't have a special phone line to their offices, but I'd say it could only mean one thing: they see a huge rally ahead… and soon.

CATEGORY

1. Investing

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

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