Is Cameco Corporation About to Hit $35?

Description

One of the last bargain bin sectors is finally moving higher, and triple-digit gains could be on the way.

This might be the biggest no-brainer investment I've seen in a while. As I'm about to explain, higher uranium prices are almost inevitable. And before this story plays out, we could see prices double or more.

Let me explain.

Mr. Market is a great business partner. He's always willing to make a deal, but only if he gets to name the price. Most of the time, his rates are fairly rational. However, sometimes his numbers make no sense whatsoever.

Case in point: uranium. Public sentiment toward nuclear power has soured to such a degree that many nations have chosen to scale back or scrap their atomic energy programs. Today, spot uranium prices are hovering around US$35/lb., more than 75% below the all-time highs reached six years ago.

The problem is that most miners are losing money at current prices. According to industry estimates, the average cost to produce uranium is US$75/lb. You don't need a PhD to figure out that at current rates, this business isn't sustainable.

If producers can't make money mining uranium, they will shut down operations. Supplies will shrink. Inventories will dwindle. Eventually, the laws of economics dictate that prices will rise to meet the cost of production, which are more than 100% over today's levels.

At this exact moment, demand is starting to pick up. For the first time since the Fukushima disaster three-and-a-half years ago, Japanese regulators declared last week that an atomic power plant was safe to operate. The move is widely seen as Japan's first steps toward restoring its idled nuclear industry.

Emerging economies are also turning to atomic energy to power their economic expansions. Last week, India signed a trade deal to begin importing uranium from Australia. China aims to more than quadruple the number of nuclear power stations in the country by 2020.

Cameco Corporation (TSX: CCO)(NYSE: CCJ) shares could see a sharp price increase, given the bullish outlook for uranium prices. As the largest producer in the world, the company is like the **ExxonMobil Corporation** of the the uranium industry. It has size and scale needed to survive the industry's current doldrums.

However, thanks to the inherent leverage in the miner's business model, profits could rise much faster than the underlying commodity. Back in February 2011, uranium prices were around US$60/lb. At that time, Cameco traded at about $35, more than double its current share price.

The risk here is small given that Cameco is still near its bear market lows. However, the upside potential could be tremendous. At some point, uranium prices will rise. And when they do, Cameco shares could soar.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Date
2025/07/05
Date Created
2014/09/17
Author
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