3 Reasons Why Cameco Corporation Could Double

Description

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

Following Japan's Fukushima Daiichi disaster, uranium prices have collapsed. Most miners are struggling just to keep the lights on, let alone grow operations. And the entire industry has been written off by the investment community.

However, if anyone had bothered to noticed, the sector is starting to stage a comeback. That's good news for the industry's largest producer: **Cameco Corporation** (TSX: CCO)(NYSE: CCJ). Here are three reasons to add this stock to your portfolio.

1. Uranium prices are too low

Negative sentiment can push asset prices to levels that don't make any economic sense. Uranium is a good example. Public opinion of atomic energy has soured to such an extent that uranium prices have fallen to US$35/lb., nearly 70% below the all-time high hit in 2007.

The problem? According to industry estimates, the average cost to produce uranium is US$75/lb. You don't need an MBA to see the issue here. At current prices, the industry is losing money on almost every ounce of uranium it hauls out of the ground.

That's exactly why the current situation cannot last. Small miners are going bust. Large producers are scaling back operations. Eventually, prices will rise to meet the cost of production, which are more than 100% above today's levels.

2. Uranium demand is growing

At the exact same moment supplies are dwindling, uranium demand is picking up. Earlier this month, Japan's Nuclear Regulatory Authority gave the OK to start up two atomic reactors. The move is widely seen as the country's first steps toward restarting its idle nuclear power industry.

Emerging countries are also turning to atomic energy. According to industry consultant UxC, 408 new reactors are expected to come online over the next decade, mostly in China and India. If this growth plays out, that would nearly double the total number of reactors in service today

This is a classic example of the cyclical resource market. When the price of a commodity soars, companies expand production and flood the market with supply — and then prices collapse. As producers cut production and suspend operations in response to low prices, supplies begin to tighten — and the price soars once again.

3. Cameco has leverage

Cameco is the **ExxonMobil Corporation** of the uranium industry. As the largest producer in the world, the company has the size and scale needed to survive the industry's current downturn. However, because of the leverage inherent in the miner's business model, Cameco's profits could rise much faster than the underlying commodity.

The smart money is also moving into the stock. As I wrote about earlier this month, value investing legend David Iben has accumulated a US$35.9 million stake in Cameco. Other notable investors — including George Soros, Ken Griffin, and Stanley Druckenmiller — own sizable positions in the company as well.

CATEGORY

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2. Metals and Mining Stocks

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