5 Reasons to Place a Contrarian Bet on Cameco Corporation

Description

Cameco Corporation (TSX: CCO) (NYSE: CCJ) has navigated through stormy weather in the global uranium market over the past few years, and investors can be forgiven for turning the lights out on the stock.

The immediate forecast is still cloudy, but the sky is beginning to clear, and there may be an opportunity for investors to get in early before a significant rally occurs in the the uranium sector.

Here are five reasons why I think contrarian investors with a long-term perspective should take a look at Cameco Corporation right now.

1. World-class assets

Cameco is the envy of the global uranium market. Its McArthur River mine is the world's largest, and holds the highest-grade uranium deposit on the planet. In fact, some of the grades are 100 times the global average.

2. Uranium prices are bottoming

The spot price for uranium hit a multi-year low just under $30 per pound in recent months. The commodity has been under pressure since the disaster in Japan, but the past several weeks have seen strength moving back into the market.

Last week, the spot price hit $36.50 per pound as sanctions against Russia and a lockout at McArthur River fueled speculation that it is at or near bottom.

3. Demand will rise

Global demand for uranium is currently about 170 million pounds per year. Current production is about 160 million pounds and another 10 million pounds comes from secondary supplies such as the Russian Highly Enriched Uranium (HEU) agreement.

Cameco expects demand to hit 240 million pounds per year by 2023 as more than 90 additional reactors go into operation around the world. Analysts also expect Japan to restart at least 30 of its reactors by 2019.

4. Supply shortage coming

The secondary supplies in the market are dropping and the depressed prices have forced miners to delay or cancel the development of new mines. Building a uranium mine can take more than seven years, so new production won't come on line quickly. Given the forecasted demand growth, a supply shortage is likely.

5. Competitive advantage

The high-grade deposits give Cameco a huge competitive advantage in the industry. Even in the current low-price environment, the company is profitable. As the price of uranium continues to rebound, Cameco will enjoy greater margins.

The lockout at the McArthur River mine is finished and operational challenges that have plagued Cigar Lake for years are finally getting resolved.

One risk to be aware of

Cameco is in an ongoing battle with the Canadian Revenue Agency (CRA) regarding a tax dispute. If Cameco loses its appeal, the impact could be a hit of more than $200 million. If that happens, the $0.40 per share dividend could get cut. The CRA risk is already priced into the stock, but a negative decision with lots of media attention could send the shares lower.

Contrarian investors with a long-term focus should be excited about the opportunity in Cameco. As soon as Japan restarts one of its reactors, Cameco's shares should rocket higher, and probably won't look back.

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1. Investing
2. Metals and Mining Stocks

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