4 Reasons to Buy Cameco Corporation Right Now

Description

The fallout in the commodity space has taken its toll on Canadian mining companies. One of the worst sectors has been uranium. Shareholders in **Cameco Coporation** (TSX: CCO)(NYSE: CCJ) have watched 50% of their holdings evaporate during the past three years and many are wondering if they should throw in the towel and move the money somewhere else.

Selling now would be the wrong move.

Here are four reasons why I think new investors should consider adding Cameco to their portfolio right now.

1. World-class assets

When looking at companies in a beaten-up sector it is important to choose ones that are market leaders and have a strong competitive advantage. In the mining business this means quality resources. Cameco's McArthur River project is not only the world's largest uranium mine, it also holds the richest deposits on the planet.

The company's other flagship asset is Cigar Lake. The mine has been troubled by operational setbacks for a number of years but the engineers finally have things sorted out.

2. Profitable at low prices

Current prices are unprofitable for many producers in the uranium space. Cameco is not one of them. The company reported Q2 2014 profits of $127 million and the Q3 report should come in according to guidance.

Being a low-cost producer with high-grade resources means Cameco has been able to to ride out weakness in the uranium market. As prices continue to move higher, cash flow should increase significantly.

3. Rising uranium prices

Amid the sell-off in oil, precious metals, and base metals, uranium has quietly bottomed and is now making a strong move to higher levels. During the summer, the spot price for uranium dropped to a multiyear low of about $28 per pound. In the past three months, the spot price has rallied 25% and is holding steady around $35 per pound.

During this time, the market has continued to drive uranium stocks lower.

4. Strong demand forecasts

Cameco expects the world to have more than 90 net new nuclear facilities operating by 2023 as developing nations such as India and China strive to meet increasing electricty demands. Japan is expected to restart as many as 30 of its nuclear reactors by 2019.

Current global demand for uranium runs about 170 million pounds. That number should hit 240 million in the next ten years, according to Cameco’s estimates.

5. Possible supply shortage

The extended slump in the uranium space has forced miners to delay expansion projects and cancel new ones. A uraninum mine requires more than seven years to go from the planning stage to production.

Given the current demand forecasts and the reduction of secondary supplies, it is possible that the uranium market will switch from surplus to shortage in the next few years.

One risk to watch

Cameco is in an ugly battle with the Canada Revenue Agency (CRA) that could be costly for shareholders if Cameco loses the fight. In the Q2 earnings report, Cameco stated the risk could be as much as $650 million.

The CRA risk is mostly built in to the share price already. The likely outcome will be a compromise deal between Cameco and the CRA.

The bottom line

For contrarian investors, the upside potential in Cameco’s stock probably outweighs the downside risks at this point.

If Cameco is still a bit too risky for your liking, you might want to check out the free report highlighted below on one stock that should be the core holding in every investor’s portfolio.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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