Cameco Corporation Is Unbelievably Undervalued Right Now

Description

On today’s earnings call, **Cameco Corporation** (TSX: CCO)(NYSE: CCJ) revealed disappointing results, which saw the stock drop 3.32%. This was caused by a drop in revenue of 1.7% year over year to $587 million. Estimates from analysts had the company finishing at $607.71 million.

Furthermore, it lowered its guidance for revenue anywhere from $2.32 billion to $2.44 billion. Analysts are estimating that the company will hit that low mark.

All of this occurred after Cameco had seen a $1.50 rise in share price over the past couple of weeks. At that sub-$18 price, it was impossibly undervalued. Even now, though, I still believe it is.

And the reason is that uranium is currently much cheaper than it has been historically. Since the Fukushima disaster in Japan, the price of uranium has plummeted, refineries have shut down, and the amount of money for uranium miners has disappeared. But things are starting to look up.

Cameco CEO Timothy Gitzel said on the call that the current demand is in a range of 100 million to 170 million pounds. He anticipates a 3% to 4% increase over the next 10 years. That would get the demand to the 230 million to 240 million range.

That’s what makes this a significant buy. Because it is so undervalued, you’ve got a good place to start your position. Seeing demand grow by that much could give this company a really nice boost in profits.

That demand will come because of the number of new nuclear power plants being launched. China has dozens in development, Saudi Arabia has many that will launch in the 2020s, and Japan will be reopening its old ones. While countries like Germany are shutting nuclear plants down, less developed countries are going to need cheap and efficient energy. That’s nuclear. I expect India to become a big follower in nuclear like China, which would help Cameco even more.

But there are still some risks. The first is that the price of uranium has still not risen to consistently profitable levels. That will inhibit the company's ability to set up new mines, which could cut into its ability to get more of that 230 million to 240 million pound demand. If the price of uranium starts rising, the company is in a good place.

The second risk is the tax charge brought forth by the Canadian government. Cameco set up a company in Europe to be its reseller of uranium due to lower taxes. It sold the uranium to that company at low rates, so it didn't report much on its taxes. The Canadian government doesn't quite like this and has said the company might have to pay over $1 billion.

I say buy…

Even though there are those risks, this company is really undervalued. It might not be bringing in as much revenue as it was before, but it controls a significant piece of the market share. It's a game of patience; if you have the time to wait for the price of uranium to increase, I believe you'll make money on this.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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