Ignore the Noise and Bet on Cameco Corporation

Description

Last week, believers in uranium got a cold taste of reality. After surging for the past few months, uranium's spot price plunged by roughly US$6 per pound (over 13%), the second largest week-over-week drop since 1996. Is now the time to bail out?

Not so fast

Before overreacting, you have to remember one thing: uranium is a very illiquid market. In other words, there are very few buyers and sellers. So this means the actions of just a few players can cause dramatic price swings. Last week, a few buyers exited the market, nothing more.

Still reasons for optimism

One only has to look back a couple of weeks ago, when H.C. Wainwright analyst Jeffrey Wright predicted the spot price would reach $50 per pound in the next 12 months. He has plenty of reasons for believing this.

For one, industry insiders say the marginal cost of uranium is roughly US$65 to US$70 per pound. This is about double the US$38/lb price that the company closed at last week. So as long as uranium prices remain depressed, there is little reason to add new supply.

Furthermore, much of this supply comes from places with high geopolitical risks, such as Niger, Kazakhstan, and Russia. The sanctions against Russia pose an especially big risk to uranium supply, mainly because the country's big banks are being targeted. This means big uranium projects may have difficulty securing financing.

Reasons to believe in demand too

While uranium supply continues to face restraints, there are reasons to believe demand will rebound too.

The key factor here is Japan's nuclear restart, which has made some strides recently. In late October, two reactors at Japan's Sendai nuclear plant received the go-ahead for a restart. Further approvals could eventually follow. Meanwhile, China is constructing 27 new nuclear reactors (out of 71 worldwide), and the country will likely lead uranium demand growth for many years to come.

Cameco: The best way to make that bet

If you ask fund managers what their favourite uranium stock is, most will answer **Cameco Corporation** (TSX: CCO)(NYSE: CCJ), and for good reason. Cameco has the world's best uranium assets – in fact its flagship mine has grades 100 times the world average.

Better yet, Cameco's production in Canada is insulated from the world's worst geopolitical risks. So if Russian sanctions continue to squeeze the country, Cameco will benefit.

There's one more reason to bet on Cameco: price. To illustrate, uranium prices are up by about 35% since May 20. But Cameco's share price has barely budged at all, up only 3%. The company has run into some short-term issues, such as a worker's strike, which has depressed its shares.

But longer term, Cameco is primed to take advantage of the uranium recovery. You should ignore the short-term noise, and side with these fund managers.

CATEGORY

1. Energy Stocks
2. Investing

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Date
2025/07/23
Date Created
2014/11/24
Author
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