Could Cameco Corporation Double in 2015?

Description

Cameco Corporation (TSX: CCO)(NYSE: CCJ) has been a disappointment for investors during the past few years and many believers in the uranium story are starting to wonder if it's all just a big myth.

Long-term contrarians know the secret to building wealth lies in the ability to identify out-of-favour stocks that hold a strong competitive advantage and solid growth prospects.

Here are five reasons I think Cameco Corporation could rally in 2015.

1. Rising uranium prices

Despite the pullback last week, uranium prices have been on the rise since bottoming near $28 per pound a few months ago. The price currently sits at about $38, after hitting a recent high of $44.

Utilities, traders, and producers have been buying up spot-market supplies during the past four months and it won't take much to send the global market into a buying frenzy, especially with less liquidity in the market now that **Goldman Sachs** and **Deutsche Bank** have shut down their uranium trading operations.

2. Japan restarts

Japan is expected to restart at least two of its nuclear reactors in 2015 and analysts expect to see as many as 30 back in operation by 2019. The moment the rumours become reality, uranium producers will be in hot demand.

3. New contracts

Energy producers have been filling supply gaps with low-priced uranium bought on the spot market. Those secondary supplies are beginning to disappear and nuclear energy companies will start to get nervous about the possibility of a supply crunch in the next few years. As such, producers should benefit from the signing of new long-term contract in 2015.

4. Demand growth

As secondary supplies get depleted, very little new production is being planned due to the weak uranium market. Struggling miners have canceled expansion projects and plans for new mines have been shelved. Cameco expects global demand to increase to 240 million pounds by 2023. The current demand level is just 170 million pounds.

Countries such as India and China have several new reactors coming on line. In fact, the world is expected to have as many as 90 net new reactors in operation in the next 10 years.

5. Low-cost producer

Cameco is very effective at cutting expenses and driving operational profits in a weak uranium market. In the Q3 2014 earnings statement, Cameco managed to squeeze out adjusted earnings of $93 million despite a brutal quarter for uranium prices.

The company operates the world’s largest uranium mine and holds the highest-grade ore on the planet. As prices improve, Cameco will see a strong boost to free cash flow as margins widen and the company begins to increase production.

Risks?

One big concern is a tax battle Cameco is fighting with the Canada Revenue Agency (CRA). The situation could get resolved in 2015. If Cameco loses, the company says its exposure could be as high as $650 million. If that happens, the stock will probably get hit and Cameco could cut its dividend.

The bottom line

Investors in Cameco should see better times in 2015. With the stock trading near $21 per share, a restart in Japan and new long-term contracts could easily send Cameco significantly higher. If uranium becomes the hot trade again, the stock could take a run at $40.

Cameco can be volatile, and a bad end to the CRA battle could leave investors with a nuclear-sized headache. If Cameco is too risky for your portfolio, you might want to read the report below about one top stock that is much more stable.

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1. Investing
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