6 Reasons to Buy Cameco Corporation in 2015

Description

Cameco Corporation (TSX: CCO)(NYSE: CCJ) has been a disappointment in 2014. The stock is off 14% year-to-date and investors are wondering if the story is going to change in the new year.

Here are six reasons why I think long-term investors should put Cameco on the watch list for 2015.

1. Japanese reactor restarts

Before the Fukushima disaster in 2011, Japan relied on nuclear reactors to generate 30% of its electricity. All of the country's 48 nuclear facilities have since been shut down, but the country could begin to restart them in 2015.

In early November, the Kagoshima governor approved the restart of two reactors at the Sendai plant and analysts expect Japan to restart as many as 30 of its reactors by 2019. Once the process begins, the market should feel more comfortable about Japanese uranium demand moving forward.

2. Rising prices

Uranium prices have been trending higher after dropping below $30 per pound in the summer. A brief spike above $40 had the market looking for a big rally but that hasn't materialized and the spot price now sits around $37.

Traders and utilities have been moving into the spot market more aggressively during the past few months to take advantage of the low prices. As secondary supplies continue to dwindle, the spot price should move higher next year.

Deutsche Bank and **Goldman Sachs** have decided to exit uranium trading. That decision has reduced liquidity in the market, which could result in more price volatility next year.

3. Growing demand

Cameco expects global demand to rise from the current level of 170 million pounds to 240 million pounds by 2023 as countries like India and China continue to expand their nuclear energy programs. In fact, as many as 90 net new reactors will go into operation in the next 10 years.

4. Supply shortage

At the same time, producers have shelved expansion projects and abandoned plans for new mines due to the extended weakness in the uranium market. The lack of new production combined with the expected demand growth could result in a very tight supply situation if demand expands faster than expected.

5. New long-term contracts

Most energy companies receive uranium on long-term contracts and simply fill short-term gaps with secondary supplies bought at spot-market prices. The spot price has probably bottomed and uranium producers should start to see demand for new long-term agreements as energy companies get nervous about the possibility of a price spike.

6. Low production costs

Cameco has a fantastic strategic advantage. It operates the world's largest uranium mine and owns some of the highest-grade deposits on the planet. These factors, combined with effective cost management, allowed Cameco to deliver adjusted earnings of $93 million in Q3 2014, despite the tough environment.

As prices improve, Cameco should see strong growth in both margins and free cash flow.

Risks

Cameco is embroiled in a tax battle with the Canada Revenue Agency (CRA) and some analysts believe the situation will get resolved in 2015. The company says its exposure could be as high as $650 million if it loses the fight. If that happens, Cameco's shares could take a hit and the dividend could be at risk.

Cameco can be volatile, and investors need to have a long-term bullish view on the uranium story to buy right now. If you like the company, it might be worth waiting for clarity on the CRA situation before taking a position.

The entire Canadian market has proven to be unpredictable in 2014, and some investors are starting to look south of the border for stability. If you are interested in a few new ideas for your 2015 watch list, the following free report is a must-read.

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