

2 Short-Term Reasons to Be Worried About Cameco Corporation in 2015

Description

Cameco Corporation ([TSX: CCO](#))([NYSE: CCJ](#)) is in a unique position to dominate over the next decade. It is one of the largest providers of uranium at a time when nuclear power is going to become increasingly important for countries like China, which is trying to cut fossil fuel usage.

Investors who have read my writing, they know that I am tremendously bullish on the company. It's tremendously underpriced, it still pays a dividend, and demand is going to start picking up over the next few years and really kick into gear as the decade comes to a close.

Yet, any good investor will look at both the potential gains and risks when looking to invest in a new company. And unfortunately for Cameco, there are two big risks that could hurt it in 2015.

1. A legal battle with the CRA

In 1999, Cameco launched Cameco Europe Ltd., a subsidiary based out of Zug, Switzerland. The reason for this is because Zug has unusually low taxes. Therefore, the 17-year deal allowed Cameco Corporation to sell the uranium to Cameco Europe at the 1999 level even all these years later. Then Cameco Europe would sell the uranium to other people.

In 1999, the price was US\$10.15 per pound. About a month ago, the price was over US\$40 per pound. Cameco Canada only had to pay taxes on the \$10.15 per pound, yet the company was able to realize revenue on \$40.

The Canadian Revenue Agency says that this is all wrong and it wants to be paid. And when the government decides it wants to be paid, it's usually hard to win. This is a huge concern to me because the amount that Cameco might owe is anywhere from \$625 million to \$650 million. And this amount could continue to grow by the time the contract ends in 2015.

If this happens, Cameco will have a hard time paying its dividend and the stock price will plummet. Fortunately, we'll know the outcome of this sometime in 2015.

2. As oil plummets, so does uranium

In investors' minds, all types of energy are linked. Therefore, if oil goes up, often so does the value of uranium and solar companies. And when oil goes down, so does the value of uranium and solar companies.

It appears that oil is not going to see a resurgence in price any time soon. That means uranium could continue to drop as well, which would further weaken Cameco.

Fortunately, uranium is not speculated on very much, so when demand kicks in, the price will follow very quickly. And demand is about to get going.

Should you buy anyway?

I think Cameco Corporation is going to be one of the best companies to own in 2015. The Japanese reactors are opening again. China has dozens of nuclear plants in construction. Despite the risks, Cameco is a buy, but it is important to understand what is going on.

There's another company I think is positioned to do even better in 2015. If you want to know that, check out our report below.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

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Date

2025/07/29

Date Created

2014/12/23

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