

## Will There Be Anything Left for Investors in Cameco Corp.?

### Description

In a market where energy and metals are seeing severe devaluation, investors have been forced to look to alternate sectors to keep producing returns. Some have considered uranium mining companies such as **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) as a potential investment. While nuclear power has a small market share here in Canada, it has gained traction in nations such as China, India, and the United Kingdom.

But is Cameco worth your investing dollars or will its presence in your portfolio lead to fiscal radiation poisoning?

### Mixed results

Last week Cameco released its fourth-quarter financials and revealed to the markets some concerning issues. Overall revenues have been stagnant thanks to a worldwide oversupply of uranium. Revenues in Q4 took a step backward to \$889 million compared to \$977 million in Q4 2013. Year-end revenues paint a similar picture as revenues in 2014 dropped to \$2.39 billion from \$2.43 billion in 2013.

Net earnings managed to climb in Q4 to \$73 million from \$64 million last year, but this was not enough to compensate for the rest of the year. At year-end, Cameco was only left with net earnings of \$185 million, down 42% from 2013's total of \$318 million. These disappointing numbers have been attributed to a number of write-downs, including \$126 million worth of write-downs at the company's Rabbit Lake project.

Some good news for Cameco is that uranium prices have finally begun to recover. After several years around the \$30.00 per pound mark, Cameco was able to enjoy an average price of \$52.37 per pound throughout 2014.

### Cameco vs. the tax man

Normally, a weaker annual report and oversupply's in the market is enough make an investor cautious, but for Cameco there is another issue that should be more pressing for investors. The issue traces back to 1999, when Cameco created "Cameco Europe" based in Zug, Switzerland. The new entity was created to be a reseller, but is accused of being nothing more than a rented office at the law firm representing Cameco in Europe. Cameco would sell uranium to Cameco Europe for US\$10 per pound, which would in turn sell it to Cameco's customers.

The issue is that while US\$10 per pound was the market rate in 1999, things have changed as in 2007, uranium was priced at US\$140 per pound. This difference of \$130 per pound became taxable at Switzerland's 10% tax rate instead of Canada's 27% tax rate.

Last year, the Canadian Revenue Agency began taking action against Cameco and is looking for \$1.5 billion in back taxes, plus penalties. The proceedings have been drawn out for quite some time and it is

believed that the matter won't hit the courts until 2016. In the meantime, Cameco is required by income tax laws to submit 50% of the total back taxes and fees owing, but has only remitted \$212 million thus far.

To compound the issue, the IRS has also launched a case to pursue \$32 million in back taxes from the same scheme. Now Cameco is facing the same tax controversy on both sides of the border, adding to the concern from investors who worry that the CRA and IRS may cooperate in their respective cases. The Canadian courts could see the involvement of the IRS as added cause to rule in favor of the claims made by the CRA.

### **Gains or pains?**

If Cameco loses this case on both sides of the border, it will cost the equivalent of 50% of annual revenues. Cameco has hinted that it could consider paying the tax bill with letters of credit, but it should be noted that the company already has \$1.5 billion in debt on the books.

Cameco's stock closed Friday at \$19.52, which is near the bottom end of its 52-week range of \$16.73 to \$28.57. When we look at the price target, it is only at the averaging out at the \$24.00 mark in the most recent reports, showing the stock will not outperform 2014. Cameco appears to have reached the same conclusion as they have projected that revenues in 2015 will decline by 0% to 5%.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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