The Tipping Point in Chinese Energy Could Be a Boon for Cameco Corporation

Description

China is at a tipping point when it comes to energy. Its people are demanding more electricity and with the need for clean energy, China is looking at nuclear power as the way of providing it. Over the next 20 years, the demand for electricity will double in the country.

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China plans to add about 15 gigawatts of electrical capacity this year alone. That's about 20 reactors that are going to go online this year just to provide electricity in the country. That means China will need to get the fuel to power these power plants. The one company that stands out as a fuel provider is **Cameco Corporation** (TSX:CCO)(NYSE:CCJ).

Estimates suggest that each reactor will need to bring in about three years of supply to ensure that the reactors are full, plus to keep plenty in reserve. With each reactor needing about 200 tonnes a year, we're looking at close to 12,000 tonnes of demand.

Based on the current price of uranium of US$39.25, those 12,000 tonnes will cost US$1.03 billion. To turn the reactors on, it will cost over US$1 billion. As these companies start looking to acquire the uranium, the price is naturally going to go up based on simple supply and demand.

Based on how much demand there will be—China is adding more reactors every year—and the fact the supply is not abundant, the price of uranium is liking going to move up to the US$65 mark before 2015 comes to an end. And if that happens, Cameco is going to see an amazing jump in price. The last time the price was US$65, Cameco was trading at nearly $40 a share.

Should you buy?

There is one primary risk Cameco has that would make me hesitate to acquire shares, and that's the fact that it's dealing with tax issues from the CRA. The agency says Cameco hasn't paid enough taxes. Should that prove to be correct, Cameco could be on the line for over $600 million. There have even been suggestions that it could wind up costing Cameco close to $1 billion.

However, if Cameco wins, this becomes a slam dunk opportunity because the company is trading so low right now. And because it is the largest mine in the world, it will be able to gain a significant chunk of the uranium market when China starts buying.

Cameco already pays a dividend over 2%, and that's with the price of uranium really depressed. Imagine what the company will do when it has significant demand for its product.

I believe Cameco is a buy based on China's needs, and since the share price likely has the possibility of Cameco losing to the CRA factored in already, it shouldn't drop too much more.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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