



Should You Buy Cameco Corporation?

Description

Shares of **Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) are down 25% in the past year, but the price action over the past few months suggests the stock could be building a base for a move higher.

Let's take a look at Cameco to see if you should add the stock to your portfolio right now.

Uranium demand

In its Q4 2014 earnings statement Cameco said it expects 2015 sales volumes to be 5-10% lower than in 2014. While the outlook for this year is not particularly exciting, the long-term prospects are more encouraging.

Japan continues to move through the slow process of getting its nuclear reactors back online. Cameco says 11 restart applications have been submitted in Japan by 11 utilities for the restart of 21 reactors.

The two Sendai reactors are broadly expected to go back into operation before the middle of 2015 and two Takahama units are in the final regulatory approval stage. The more important indication that the Japanese nuclear energy market could be on the cusp of a rebound is the fact that Japanese utilities are spending billions of dollars on plant upgrades in anticipation of reactor restarts.

Beyond Japan, other countries such as China, India, Russia, and South Korea continue to expand their nuclear power generation capabilities. Cameco expects roughly 90 net new reactors to go into operation over the next decade and uranium demand should rise from 170 million pounds to about 240 million pounds during that time.

Global supply

Since the disaster in Japan, uranium prices have remained under pressure. The market bottomed out last year below \$30 per pound, and while prices have rebounded by more than 25%, the current spot price of about \$37 per pound is still unprofitable for many producers.

As a result, production has been reduced and expansion plans have been shelved. Starting up a

uranium mine takes several years, and once demand begins to improve the market could see a supply shortage.

Tax battles

Cameco is embroiled in a couple of nasty tax battles that have been weighing heavily on the stock price.

The Canada Revenue Agency (CRA) believes Cameco owes significant back taxes for the years 2003-09. Reassessments have been issued that will cost Cameco an extra \$820 million if it loses the case. The company could also face additional penalties through 2014.

Cameco expects its appeal of the 2003 reassessment to be heard in the tax court in 2016 and a decision could take as long as another 18 months.

Cameco is also in a battle with the IRS, but for a much smaller amount.

Should you buy?

The long-term outlook for the uranium industry is compelling, and Cameco is a low-cost producer operating the world's largest uranium mine. It also holds some of the the highest-grade deposits on the planet.

Any news of a reactor restart in Japan will probably light a fire under uranium stocks, and the tax concerns are likely already built into the stock price.

However, the 2015 market outlook isn't great and the tax issues are going to linger for some time. If you already own the stock, I would hold it. New investors probably have limited downside risk at this point, but you should be prepared to ride out more volatility.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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