Buy Cameco Corporation, But Prepare for Volatility

Description

If you thought investing in oil was causing you indigestion, imagine if you had been investing in uranium. If you've held stock in **Cameco Corporation** (TSX:CCO)(NYSE:CCJ) for five years, you've experienced tremendous run ups, effectively doubled your money in seven months, and then experienced a long and slow downward trend. And throughout all that, there have been price spikes that caused moments of excitement before it all came crashing down again.

Investing in uranium is a tremendously volatile move because volume in trading is so small that any speculative move can have significant impacts on the spot price. But while that is the case, I am still very much bullish on Cameco Corporation.

Buy, but be prepared

I'm an advocate of Cameco. In my opinion, it is one of the most efficient uranium miners around and it has access to quite a bit of the resource right out its backdoor. I think the company has a very bright future ahead of it.

First, there's the fact that Japan is finally beginning the restart process for its reactors. After the Fukushima disaster, there were many concerns about the viability of uranium as a tool to generate power. Fortunately, Japan is looking to get nuclear power started again. That will create demand for uranium.

But more importantly, there's the fact that China is in the market for a ton of uranium. Over the next decade, they are going to be launching dozens of nuclear reactors and each will require hundreds of thousands of pounds of uranium just to get started.

Even with the economic slowdown in China, many people are rising up to the middle class. Those citizens are going to demand that they have inexpensive power. Nuclear power is the most efficient way to get that power. Further, with China starting to take the environment seriously, the country is going to need to find ways to generate tons of electricity without completely covering its cities in smog. Nuclear power is the answer to that problem.

According to Cameco, the amount of uranium that will be needed to service all the reactors that are becoming operational will grow from 155 million pounds to 230 million pounds in a decade. While Cameco won't provide it all, even a chunk of that increase is going to generate significant amounts of revenue.

Where volatility comes from

While I do recommend buying Cameco, this is a long-term purchase. I don't suggest you look at this as anything but a five-year investment, if not even longer. Over the next couple of years, we'll know whether or not Cameco will owe the Canadian Revenue Agency close to $800 million. If Cameco wins, that will have a huge impact on the price.

Another thing that makes Cameco so volatile is the price of uranium. While utilities don't buy the spot price, investors use that as a sign of potential revenue. When it goes down, Cameco goes down and vice versa. It's quite possible that we'll see spikes up and down over the next five years, which could cause the share prices to fly around.

However, if you can stomach the volatility and believe in nuclear power as the best way to create tons of electricity in bulk, I would suggest looking at Cameco as a viable option. Just be prepared to have some indigestion.

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1. Editor's Choice

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