



Is This the Right Time to Buy Cameco Corporation?

Description

Cameco Corporation ([TSX:CCO](#))([NYSE:CCJ](#)) has been under pressure for several years, but investors are starting to see light at the end of the tunnel.

Let's take a look at the current situation to see if you should consider adding Cameco to your portfolio right now.

India supply deal

On April 15 Cameco announced a new deal with India's Department of Atomic Energy to supply 7.1 million pounds of uranium concentrate under a long-term contract that runs through till 2020.

India is the world's second-fastest growing market for nuclear fuel. The country currently operates 21 nuclear reactors and another six are under construction. The new reactors should be online by 2017. The 27 reactors will have a total capacity of of 10,300 megawatts.

Investors are certainly excited about this deal, but the long-term opportunity should be the focus. India expects to have 45,000 megawatts of nuclear capacity by 2032.

This is Cameco's first agreement with India and it signals a new age in relations between the two countries. The Canadian government banned the sale of uranium to India after the country used Canadian technology to develop nuclear weapons.

The situation had been a sore spot between the two nations for nearly 40 years. In 2013 the Canada-India Nuclear Cooperation Agreement paved the way for the latest deal by removing the ban and permitting Canadian firms to enter into discussions for new supply contracts.

Global demand

Cameco's uranium sales in 2015 are actually expected to lag behind the 2014 volumes by 5-10%, but the long-term trend for the industry and the company looks promising.

Cameco expects global demand to hit 240 million pounds in the next 10 years, rising gradually as 90 net new reactors go online. Current demand is about 170 million pounds.

Another catalyst that could launch the market higher is the restart of nuclear reactors in Japan. The country is expected to flip the switch on the two Sendai reactors this year and two Takahama units are in the final regulatory approval stage.

Ongoing risks

Cameco continues to fight tax battles with both the Canada Revenue Agency (CRA) and the IRS. Investors should watch the CRA situation carefully because reassessments have been issued for the tax years 2003-09. If Cameco loses its appeal, the hit could be as high as \$820 million. A decision isn't expected before 2017 at the earliest.

Should you buy?

The CRA fight will continue to be an overhang on the stock. It is prudent to expect the worst when making an investment decision, but I suspect the damage will fall somewhere in the middle range where the CRA gets some of the funds it is looking for, but Cameco won't be forced into a cash crunch.

If Cameco wins its argument, the stock will take off like a rocket.

On the fundamentals side, uranium prices will eventually recover and Cameco is a low-cost producer with the world's largest mine and one of the highest-grade resources. The long-term perspective looks good, but new investors should expect volatility until the tax issues get resolved.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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