



## Is Now Finally the Time to Give Up on Cameco Corporation?

### Description

For years, shareholders of **Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) have been anxiously awaiting a rebound in the price of uranium. That rebound still hasn't happened, with prices still stuck at US\$36 per pound.

So, is the uranium market finally about to turn, or is now the time to give up?

### Why we should be hopeful

When looking at the supply side, US\$36 uranium looks unsustainable, with producers losing money left and right. Eventually, supply should take a hit, allowing prices to rebound. According to some estimates, prices need to more than double in order for the market to come into balance.

The demand side tells a similar picture. With uranium prices so low, it provides a strong incentive for countries to use nuclear power. The perfect case in point is Japan, which shut off all its nuclear power reactors after the 2011 Fukushima disaster, only to be stuck with sky-high bills for liquefied natural gas.

It's not just Japan that could increase its use of nuclear power. China is building 23 new nuclear reactors, and Cameco just signed a big five-year uranium supply agreement with India.

Best of all, Cameco has the world's most efficient uranium mines, and also has a strong hedging program. So, even if uranium prices remain depressed, the company can withstand the heat for many years as it waits for the market to recover.

### Why we should give up

While US\$36 uranium looks like an unsustainable price for producers, total uranium supply has held up relatively well in recent years for a couple of reasons. First of all, uranium mines are very costly to shut down, especially when unions are involved. Second, no one wants to be the first to cave in, only to see competitors benefit from higher prices.

Meanwhile, demand may take a long time to rebound. The Japanese restart has been held back by

regulators for years, and the country's citizens are generally opposed to the idea. It looks like the nuclear power companies aren't holding their breath; Tokyo Electric Power Co. has just decided to sell some of its uranium stockpiles. This will not be a positive for uranium prices.

Making matters worse, Cameco is involved in disputes with the Canadian and American tax authorities. This could cost the company well over \$1 billion, something the *Financial Post* referred to as "debilitating."

Furthermore, Cameco shares are quite pricey. Including debt, the company is valued at nearly \$9 billion, or roughly \$20 per pound of reserves.

### **The verdict**

At this point, I would avoid Cameco. Although there's plenty of upside for uranium prices, there's just too much uncertainty at this point, and you can certainly find better opportunities elsewhere.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

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

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