



93 Reasons Why Cameco Corporation Is a Buy

Description

When a sector is growing and a stock is underpriced, that looks like a buying opportunity to me. And I have 93 reasons why **Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) will be one of the top stocks for investors over the next five years.

Those 93 reasons can be summed up in one sentence: that is the amount of new reactors that will be fully operational by the year 2023. In other words, we are going to see a significant number of new reactors hungry for the uranium needed for power generation.

The two countries that are going to create that demand are China and India. It has been estimated by the U.S. Energy Information Administration that China and India will double their nuclear power every year until 2040. What's surprising is that even countries like Saudi Arabia are working on reactors because nuclear energy is an inexpensive, efficient way to generate electricity.

It is estimated that China will bring about 20 reactors online this year alone. The typical amount of uranium bought for a new reactor is about 200 tonnes a year. That means each reactor will need 600 tonnes of uranium, which is equal to 12,000 total tonnes of demand.

Based on the price of uranium right now, we're looking at close to US\$1 billion just to bring these reactors online. Cameco owns 15% of the uranium business. How much of that US\$1 billion will it get?

Add the fact that China and India continue to bring new reactors back online, I anticipate the price to rise in the second half of 2015. Some nuclear analysts have predicted that it could hit US\$65. The last time the price of uranium was that high, Cameco traded at nearly \$40 a share.

But hold on before buying...

With all of this in mind, Cameco should be an immediate buy, right? Wrong. Cameco set up a very interesting corporate structure with its Canadian and European arms. Cameco would sell uranium to the European company it owned, and then that company would sell to clients. This kept the amount of money that the Canadian company had to pay in taxes relatively low.

Unfortunately, the CRA says Cameco was wrong in doing this, and the agency has come to collect unpaid taxes in the amount of \$600 million. And there have been some suggestions that this bill could rise to about \$1 billion.

Now, I believe this legal issue is already factored into the price of Cameco. However, the markets are irrational, which could result in a drop in price if the CRA wins. However, if Cameco wins the court case, I expect the price to pop up.

And since the company pays a dividend over 2%, the risk isn't too significant and owning a small position in the company could be a long-term positive.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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