Are Uranium Stocks About to Break Out?

Description

At $36 per pound, uranium prices are nearing historic lows. Even immediately following the financial crisis of 2009, prices bottomed out at about $40 a pound after peaking at close to $140.

The stocks of uranium miners have predictably done just as poorly. Over the past five years shares of major uranium producer **Cameco Corporation** (TSX:CCO)(NYSE:CCJ) are down 25%. The stocks of **Uranium Participation Corp.** (TSX:U) and **Paladin Energy Ltd.** (TSX:PDN) are down 8% and 90%, respectively. Regardless of the degree, uranium stocks are largely down over the past several years.

Fortunately, there are some market factors that may send the price of uranium soaring, a huge boon to any company exposed to the production of the metal.

Electricity demand is growing

From 1980 to today, global demand for electricity quadrupled. By 2035 demand is expected to grow by another 60% due to rapidly rising usage in emerging markets.

To support this demand nuclear power plants are being built across the globe. While net additions are lackluster in Europe, Asia, and North America, both India and China are planning to construct over 100 on their own in the next decade. After including plant shutdowns, the world nuclear plant count should increase by over 80 reactors by 2024.

Current supply of uranium is not enough to meet demand needs

Only 15% of new demand is going to be met with new supply. That means there either has to be a major increase in the uranium supply or prices will spike higher.

By 2024 there is expected to be roughly 230 million pounds of demand and only 140 million tons of supply. This means that current uranium miners should benefit from pricing upside as well as the ability to bring on new supply volumes.

China is getting into the game directly

China's government is reportedly on the hunt for uranium acquisitions with large deposits. Cantor Fitzgerald, an investment bank, lists a few projects that could be considered including **Rio Tinto PLC's** (NYSE:RIO) Roughrider, Cameco Corporation's Millennium, **Fission Energy Corp.'s** (TSXV:FIS) Patterson Lake South, and **Denison Mines Corp.'s** (TSX:DML)(NYSE:DNN) Wheeler River property.

Because China has shown an ability to move commodity markets in major ways, any direct entrance into the uranium market could push both commodity prices and property values up considerably for the companies mentioned.

Plenty of tailwinds

The long-term outlook for uranium remains robust on the back of growing demand for nuclear fuel in China and India. Strong demand, coupled with a shortage of available supply, means that over the long term prices should rise, benefiting everyone involved with producing uranium. While it's a long-term story, it could provide investors with an ability to compound attractive returns over a decade or longer.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. NYSE:RIO (Rio Tinto plc)
3. NYSEMKT:DNN (Denison Mines Corp.)
4. TSX:CCO (Cameco Corporation)
5. TSX:DML (Denison Mines Corp.)

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