



Will Cameco Corporation Be the Next Silver Wheaton Corp.?

Description

Shareholders of **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) got a rude awakening on Tuesday when the company's shares fell by nearly 12%. The steep drop came because of tax issues—Silver Wheaton pays practically no tax thanks to its subsidiaries in the Cayman Islands and Barbados. And it now looks like the Canada Revenue Agency (CRA) is really coming after the company.

This episode has taught investors some valuable lessons. One, it's important to diversify. Two, you rarely want to bet against the tax man.

So, with that in mind, are there any other companies that could suffer a similar fate? The answer is a strong yes.

Cameco and the tax man

Cameco Corporation ([TSX:CCO](#))([NYSE:CCJ](#)) is one of the world's largest uranium producers, holding some of the world's highest-grade deposits in Saskatchewan. Yet during a six-year period ending in 2012 Cameco's Canadian operations racked up a cumulative \$1.3 billion in losses. Meanwhile, over the same period, the company's Swiss subsidiary recorded \$4.3 billion in profits. What exactly is going on?

It all dates back to 1999. Cameco set up a subsidiary in Luxembourg, eventually moving it to a low-tax jurisdiction in Switzerland. It then entered into a 17-year contract with that subsidiary, one that would see Cameco's Canadian operations sell its uranium to its Swiss subsidiary. The price per pound would be fixed for the entire time and "reflected market conditions," as put by CFO Grant Isaac in 2013.

Here's where the plan benefits Cameco: the uranium price was severely depressed in 1999, and the company's executives thought this price would rise. They were absolutely right. As a result, Cameco's Canadian operations began selling uranium for below-market value, resulting in losses. Meanwhile, the Swiss subsidiary was able to *buy* at below-market prices, ensuring big profits. These big profits faced minimal taxes.

The CRA began investigating Cameco as early as 2006, and has already reassessed the company's

tax obligations. Cameco is fighting the CRA in the courts, and the outcome is still very uncertain.

How big of a deal is this?

If Cameco loses its case, the company estimates it would owe roughly \$1.5 billion in back taxes, plus some additional penalties.

To put this in perspective, such a penalty would be worth roughly \$4 per share. Even worse, Cameco only has about \$600 million in cash on its balance sheet, although the company claims that any penalties could be paid over time.

Here's the good news: Cameco may have to pay nothing at all. The company claims it has done nothing wrong, so we'll just have to see what the outcome is.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)
3. TSX:WPM (Wheaton Precious Metals Corp.)

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