



Cameco Corporation: Buy, Sell, or Hold?

Description

Cameco Corporation ([TSX:CCO](#))([NYSE:CCJ](#)) is sitting near its 52-week lows and investors are wondering if they should hold the stock, buy more, or simply move on.

Let's take a look at the current situation to see if Cameco deserves to be in your portfolio.

Deal with India

Cameco's investors got some good news in April when the company announced a five-year agreement with India's Department of Atomic Energy to supply 7.1 million pounds of uranium concentrate.

India has 21 active reactors and another six under construction. Combined, the 27 facilities will have a total capacity of 10,300 megawatts.

That's a lot of power, but the appealing prospect for Cameco and its shareholders is the additional capacity India plans to add over the next 17 years. By 2032, the country expects to have 45,000 megawatts of nuclear capacity.

Chinese growth

After the disaster in Japan, China put a moratorium on new reactor projects. That directive has been lifted and the country is once again approving new plants.

China has 26 reactors in operation and another 23 under construction.

Uranium prices and demand

In total, Cameco says there are 63 new reactors being built globally. More than 80 net new facilities are expected to go into service over the next 10 years, and that should boost uranium demand from 155 million pounds to 230 million pounds.

The price of uranium is still lingering below US\$40 per pound as production and secondary supplies more than meet demand.

Producers have delayed or cancelled expansion projects in an effort to bring the market into balance. Cameco says it takes seven to 10 years to bring new production online, so the uranium market could face a shortage in the coming years.

Market watchers and utilities are aware of this and many will jump in to secure new long-term contracts once the price of uranium starts to move higher. This could send the price up significantly in a short period of time.

Tax battles

Cameco is fighting tax battles with both the IRS and the Canada Revenue Agency. The dispute in Canada carries potential penalties of \$820 million if Cameco is unsuccessful in its appeal. A decision isn't expected before 2017.

What should investors do?

The past four years have been frustrating for Cameco's investors and that trend is likely to continue in the near term. The tax issues are probably built into the stock price and any decision that is better than expected could send the shares higher. Japan is expected to restart two of its reactors by the end of this year. Once that process begins, sentiment in the market should improve.

At this point, the potential rewards likely outweigh the downside risks and long-term investors should be comfortable holding the stock or even adding a bit to their portfolios.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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Author

aswalker

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