Should You Buy or Avoid Cameco Corporation Following its Q2 Report?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ), one of the world's largest producers of uranium, announced second-quarter earnings results on the morning of July 30, and its stock has responded by falling over 1%. Let's take a closer look at the results to determine if we should consider using this weakness to begin scaling in to long-term positions, or if we should look elsewhere for an investment instead.

Breaking down its second-quarter performance

Here's a summary of Cameco's second-quarter earnings results compared with its results in the same period a year ago.

Metric	**Q2 2015**	**Q2 2014**
Adjusted Earnings Per Share	$0.12	$0.20
Revenue	$564.52 million	$501.97 million

Source: Cameco Corporation

Cameco's adjusted earnings per share decreased 40% and its revenue increased 12.5% compared with the second quarter of fiscal 2014. The company's double-digit percentage decline in earnings per share can be attributed to its adjusted net income decreasing 41.8% to $46 million. This is primarily due to higher administrative expenses and a favourable legal settlement of $28 million in the year-ago period.

Its strong revenue growth can be attributed to its average realized selling price of uranium increasing 14.3% to $58.04 per pound, which more than offset the negative impact of its sales volume decreasing 1.4% to 7.3 million pounds, and led to its revenue from the sale of uranium increasing 12.8% to $424 million.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Total uranium produced and purchased increased 118.6% to 9.4 million pounds
2. Production volume of uranium increased 35% to 5.4 million pounds
3. Purchase volume of uranium increased 1,233.3% to four million pounds
4. Revenue increased 30.6% to $81 million in its NUKEM segment
5. Revenue remained unchanged at $70 million in its fuel services segment
6. Gross profit increased 12.5% to $153 million

Cameco also announced that it will be maintaining its quarterly dividend of $0.10 per share, and the next payment will come on October 15 to shareholders of record at the close of business on September 30.

Should you buy Cameco today?

It was a good quarter overall for Cameco, so I think its stock should have responded by moving higher. With this being said, I think the slight post-earnings drop represents a great long-term buying opportunity, especially because the stock now trades at very attractive forward valuations, including just 15.2 times fiscal 2015's estimated earnings per share of $1.15 and only 13.5 times fiscal 2016's estimated earnings per share of $1.30, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 27.3.

In addition, Cameco pays an annual dividend of $0.40 per share, which gives its stock a solid 2.3% yield at today's levels.

With all of the information above in mind, I think Cameco represents the best long-term investment opportunity in the uranium industry today. Foolish investors should take a closer look and strongly consider establishing positions.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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