



Cameco Corporation: Is it Finally Time to Buy?

Description

Cameco Corporation ([TSX:CCO](#))([NYSE:CCJ](#)) is stuck in a four-year slump, and long-term investors are wondering if they will ever be rewarded for their patience.

Let's take a look at the current situation to see if better days are coming for the company and its shareholders.

Uranium market

Uranium prices have been in the dumps since the 2011 nuclear reactor disaster in Japan. Today, uranium trades for \$36 per pound, well below the \$70 per pound it fetched in February 2011.

Most global producers are either unprofitable at current levels or barely covering their costs, and many new projects have been delayed or even permanently mothballed. Those decisions could have a huge impact on the market in the coming years because demand is expected to rise, and the secondary supplies that have kept prices down are running out.

As the oversupplied conditions evaporate, spot prices will drift higher and utilities will begin to get nervous about not having long-term contracts in place to guarantee against a supply squeeze.

What could send the market higher?

Japan has finally begun the process of restarting its nuclear reactors. If all goes well, the market could start to move uranium prices higher on the expectation of further restarts.

Shortages are coming

Getting a new uranium facility up and running can take as long as 10 years, so there isn't much new capacity headed for the market when new production is going to be needed. The world currently has 64 new reactors under construction, and Cameco says it expects to see 82 net new reactors go into service in the next decade.

China alone is currently running 26 reactors and has another 24 in the works. India has 21 active reactors and is building six more.

India is an important market for investors to focus on because Cameco just signed a new agreement with the country to supply seven million pounds of uranium over the next five years. That could lead to much larger deals because India plans to boost its nuclear capacity from 10,300 megawatts to 45,000 megawatts by 2032.

Earnings

Cameco has done a great job of managing costs through the downturn while setting up for the eventual rebound in the market. The company reported solid Q2 2015 earnings of \$0.22 per share. Total 2015 revenue should come in 5-10% higher than 2014.

Risks?

Cameco is fighting a drawn-out battle with the Canada Revenue Agency over taxes on revenue earned by the company's foreign subsidiary. The issue is well known and most analysts feel it is already built into the stock price. If Cameco loses its appeal the company could take a hit of more than \$800 million. A decision isn't expected before 2017.

Should you buy Cameco?

The long-term outlook for the uranium industry is positive. Cameco is a low-cost producer and owns one of the highest-grade deposits on the planet. Uranium prices can move very quickly, so it would be wise to get ahead of the curve if you believe the market is headed higher in the next couple of years.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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