5 Reasons to Hold Cameco Corporation Right Now

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) has been a frustrating investment over the past four years, but the outlook suggests long-term shareholders will be rewarded for their patience.

Here's why.

1. Important customers

Cameco has strong supply agreements with China and recently signed an important deal to provide India with seven million pounds of uranium over the next five years.

China operates 26 nuclear reactors and has another 24 planned or already under construction. India has 21 active reactors and six more under construction.

India is very important because the growth projections for the country's nuclear energy program are massive. The existing 27 reactors have a combined capacity of about 10,300 megawatts. By 2032, the country expects to boost that number to 45,000 megawatts.

2. Growing uranium demand

The world has 64 new reactors currently under construction, and Cameco expects more than 80 net new reactors to go into service in the next 10 years.

That is going to boost annual uranium demand from today's level of 155 million pounds to about 230 million pounds by the end of 2024.

3. Eventual supply shortage

The 2011 disaster in Japan hit the uranium market very hard, and prices are still trading at roughly half the $70 per pound seen just before the catastrophe.

Four years of depressed prices have forced mining companies to delay or abandon expansionprojects, and that is going to hit the market in the coming years.

For the moment, secondary supplies are sufficient to keep the market in an oversupplied state, but that pool of uranium is beginning to evaporate.

As new demand hits the market, mining companies won't be able to ramp up production fast enough, and there is a real possibility of a supply squeeze in the next few years.

4. Upward price trend

Uranium trades in a relatively illiquid market and prices can rise very quickly.

Utilities normally lock in their costs by signing long-term supply deals with companies like Cameco to ensure they always have access to the uranium they need.

In the past few years, power companies have been content to fill supply gaps with spot market purchases because prices have been so low, but once the spot price start to drift higher, these utilities will get nervous and start signing new deals again, and that will support even higher prices.

It only takes a few big buyers to rush into the uranium market to light a fire under the commodity.

5. Efficient operations

Cameco has done an excellent job of reducing costs to match the downturn in the market. In Q2 2015, the company delivered earnings of $0.22 per share and management said total 2015 revenues should be 5-10% higher than last year.

Cameco is in a great position to benefit from a uranium rebound. The company operates the industry's largest mine and owns some of the richest uranium deposits on the planet.

Risks

The company is in an ongoing battle with the Canada Revenue Agency over taxes linked to a foreign subsidiary. This issue is well known, and most of the risk is already priced into the stock. However, Cameco could be on the hook for more than $800 million if it loses the case.

Should you buy now?

Japan has begun the process of restarting its reactors and that should put a floor under uranium prices. The long-term fundamentals look good, and the stock could move much higher in a short period of time once sentiment changes. If you want to ensure you are ahead of the curve, it might be a good idea to start a small position.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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