



Cameco Corporation Is Ready to Ride This Upcoming Bull Market

Description

With its stock down 30% in the past 12 months, many investors would expect that the prospects for **Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) aren't too encouraging. Fortunately for contrarian investors, the market may be giving away a pretty attractive bargain.

Here are the primary reasons why Cameco is set to outperform.

Uranium prices are ready to skyrocket

JPMorgan Chase & Co. estimates that uranium prices will double by 2020. This is a classic supply versus demand scenario.

As more nuclear reactors are deployed across the globe to meet electricity demand, uranium prices should predictably improve. For example, China's nuclear program currently operates 26 reactors. It has immediate plans to construct 24 additional plants, with 33 more planned over the next decade. By 2024, the global supply of nuclear reactors is expected to increase from 436 to 518.

Supply, however, is expected to remain constrained, falling well short of demand projections over the next decade. By 2024, current uranium supplies will be roughly 30% lower than expected demand. While half of this is expected to be met by supply additions from major producers, the other half will be harder to come by. This means that within a decade, global uranium demand will outstrip supply by nearly 15%.

Rising global demand could come sooner than expected

In Japan, five nuclear reactors have passed the Nuclear Regulatory Agency's safety review, with two of them expected to restart by October. In fact, all of Japan's 25 nuclear reactors have applied for a restart after the Fukushima disaster, which could lead to an increase in uranium demand once they receive approvals and come online.

In the U.S., President Barack Obama recently unveiled a plan to reduce carbon emissions from power plants by a third by 2030, allowing for new nuclear reactors to count more towards federal targets for

states. This may end a prolonged period in which the U.S. has lagged the world in nuclear reactor additions.

Cameco is best positioned

In order to capitalize on rising uranium prices, a company needs adequate reserves to last well into the bull cycle. The higher the level of reserves, the greater value the market can assign to the company.

Controlling roughly 30% of the current global supply, Cameco has over one billion pounds in total reserves. Total global consumption of uranium is expected to be 165 million pounds in 2015. This means that Cameco has multiple decades of reserves, more than enough to take advantage of the impending price rise in uranium.

In 2016, Cameco is expected to earn \$1.35 a share. At its current valuation, shares are only trading at 10.6 times next year's earnings. With such a long-term tailwind behind it, this is an incredible bargain to buy into one of the industry's leaders.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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2. TSX:CCO (Cameco Corporation)

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