Cameco Corporation: Is the Bottom in Sight?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) has been in the doldrums for more than four years, and long-term investors are wondering if the stock is finally finding its bottom.

Let's take a look at Canada's top uranium producer to see if there is light at the end of the tunnel.

Market trouble

In early 2011, uranium sold for more than $70 per pound and Cameco's stock traded at $40 per share. Then the tsunami hit Japan, and everything changed.

The shutdown of Japan's entire nuclear fleet triggered a wave of selling in the uranium market. As the price of uranium slid, it took Cameco's shares with it. By the end of 2011, shareholders were looking at a 50% haircut off the pre-disaster highs and were wondering when the market would finally recover.

The wait has been longer than expected, and many investors could be forgiven for throwing in the towel, but better days should be on the horizon.

Supply and demand outlook

Uranium currently trades for half as much as it did before the Japanese nuclear disaster. Four years is a long time for commodity producers to endure a slump, and many mining companies have delayed or completely cancelled new development projects.

This could lead to a supply squeeze in the coming years.

Cameco expects 82 net new reactors to go into service in the next 10 years, but existing production capacity is not sufficient to meet the forecasted demand growth for uranium. In fact, demand is predicted to jump from 155 million pounds today to 230 million pounds by 2024.

At the moment, a pool of secondary supplies is keeping the spot price low and this has enabled nuclear utilities to fill demand gaps with cheap uranium. As the pendulum starts to move towards a balanced market, utilities are expected to begin signing new long-term deals to avoid getting caught out by a price spike.

Could prices surge?

The uranium mining business is wrought with technical difficulties, and large sources of supply can be shut down very quickly. Another thing to consider is the fact that a new mine requires up to 10 years of development before it is ready for production. As higher demand and reduced supplies start to take effect, the price of uranium could move significantly higher in a short period of time, especially if producers are not able to get new production online fast enough.

Efficient operations

Cameco has done a great job of controlling costs through the downturn, and the company is still profitable. Second-quarter earnings came in at $0.22 per share and total revenue for the year should be 5-10% higher than it was in 2014.

Cameco also just announced the official start of production at its Cigar Lake uranium mine. This is important for investors because it means capital expenditures should drop and revenues will begin to rise as the site ramps up production.

CRA problem

Cameco is embroiled in a nasty tax battle with the CRA that could drag out another two years before it gets resolved. If the company loses the case, the hit could be more than $800 million. The risk is probably already priced into the stock, but the issue will keep some big investors on the sidelines.

Should you buy?

Cameco is a low-cost producer and sits on one of the richest resources on the planet. As a long-term play, the stock looks attractive at the current price. While investors could see more volatility until the CRA case gets resolved, it might be worth taking a small position to get ahead of the curve in case uranium spikes.

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1. Investing
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1. Editor's Choice

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aswalker