



After its Mixed Q3 Results, Should You Buy or Avoid Cameco Corporation?

Description

Cameco Corporation ([TSX:CCO](#))([NYSE:CCJ](#)), one of the world's largest producers of uranium, announced mixed third-quarter earnings results after the market closed on October 30, and its stock responded by falling over 2% in the trading session that followed. Let's take a closer look at the results to determine if this weakness represents a long-term buying opportunity or a warning sign to avoid the stock for the time being.

The results that failed to impress the market

Here's a summary of Cameco's third-quarter earnings results compared with what analysts had anticipated and its results in the same quarter a year ago.

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Adjusted Earnings Per Share	\$0.20	\$0.30	\$0.23
Revenue	\$649.05 million	\$645.75 million	\$587.14 million

Source: *Financial Times*

Cameco's adjusted earnings per share decreased 13% and its revenue increased 10.5% compared with the third quarter of fiscal 2014. Its double-digit percentage decline in earnings per share can be attributed to its adjusted net earnings decreasing 16.1% to \$78 million, led lower by its total costs of sales increasing 16.1% to \$515.96 million.

Its double-digit percentage revenue growth can be attributed to sales increasing in two of its three major segments, including 89.7% growth to \$183.38 million in its NUKEM segment and 17.4% growth to \$83.48 million in its Fuel Services segment, and this was only partially offset by a 13.3% decline to \$387.66 million in its Uranium segment.

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

1. Production volume of uranium increased 51.9% to 8.2 million pounds
2. Purchase volume of uranium increased 50% to 2.7 million pounds
3. Sales volume of uranium decreased 23.3% to 6.9 million pounds
4. Average realized selling price of uranium increased 12.5% to \$56.07 per pound
5. Total cost per pound of uranium produced increased 20.4% to \$32.07
6. Gross profit decreased 6.9% to \$133.09 million

Should you be a long-term buyer of Cameco today?

It was a disappointing quarter overall for Cameco, so I think its stock responded correctly by moving lower.

However, I also think the decline represents an attractive long-term buying opportunity, because the stock is a great value play, as it now trades at just 16.3 times fiscal 2015's estimated earnings per share of \$1.11 and only 13.3 times fiscal 2016's estimated earnings per share of \$1.36, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 27.3.

I think Cameco's stock could consistently command a fair multiple of at least 18, which would place its shares upwards of \$24 by the conclusion of fiscal 2016, representing upside of more than 32% from today's levels.

In addition, Cameco pays an annual dividend of \$0.40 per share, which gives its stock a solid 2.2% yield, and this will amplify the potential returns for investors going forward.

With all of the information provided above in mind, I think Cameco represents the best long-term investment option in the uranium industry. All Foolish investors should take a closer look and strongly consider using the post-earnings weakness to begin scaling in to positions.

CATEGORY

1. Investing

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