Is Cameco Corporation a Buy?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) has been a publicly traded company since 1991. It is trading near its 52-week low at $16 and is almost 24% below its 52-week high of $21. Should you buy today?

The business landscape

Cameco produces uranium, which is needed for nuclear power. The price of uranium is driven by the demand of energy. The higher the demand for energy, the higher the price of uranium, given constant supply.

The demand for electricity around the world continues to grow. There are 65 new reactors under construction in different areas of the world, and they'll need uranium to power them once they're completed.

China has the highest demand growth for uranium as 24 of the new reactors are being constructed there. China already has 27 operating reactors, and dozens more are planned by 2024.

Growth

Cameco expects that roughly 15% of demand will need to be filled by new supply between 2015 and 2024. That is uranium consumption growth of 4% per year to 2024 on average. Right now, Cameco controls 30% of the existing mines that fill the current consumption need.

Near-term uncertainty

The truth is that for the most part, Cameco has traded sideways for four years between the current low price and $21 to $22 or so. And the near-term price of uranium is uncertain.

However, the company believes the long-term outlook for the uranium industry remains strong. The idea is that demand growth for uranium should push prices higher.

Reserves

Cameco has 429 million pounds of proven and probable reserves from multiple supply locations. For example, Cameco owns interests in the world-class McArthur River mine, which has an average ore grade that is 100 times the world average. This mine is forecasted to generate 13.7 million pounds for Cameco this year.

Cameco's Cigar Lake mine is a large and high-grade one that has an average ore grade above 18%. This mine is expected to generate 10 million pounds this year. Cameco also has interests in two other mines.

Earnings strength and dividend

In the last decade, Cameco earned positive earnings per share (EPS) every year. Its EPS was also higher than the year before for five out of the last 10 years.

Cameco puts a high priority on its dividend. That's why since 2001, Cameco hasn't cut its dividend and even occasionally raised it. From 2001 its quarterly dividend of 2.1 cents has increased to 10 cents, or a compound annual growth rate of 11.8%.

However, due to the nature of its business, shareholders should expect there to be years when Cameco freezes the dividend. For example, it last raised the dividend in 2011.

Conclusion

Cameco has been awarded with an S&P credit rating of BBB+, so its financial strength is evident since a rating of BBB- is considered investment grade. If you are bullish on the future demand for uranium, Cameco is not a bad way to gain exposure. At $16, it yields 2.5%.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/07/28
Date Created
2015/12/16
Author
kayng