Could Cameco Corporation Rebound in 2016?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) has been under pressure for nearly five years, and investors are wondering if 2016 is going to finally bring some relief.

Let's look at the current situation see if next year could bring a turnaround for Canada's top uranium company.

Weak market prices

Uranium continues to trade below US$40 per pound. The market actually bottomed out in 2014, but the spot price for the nuclear fuel has struggled to make much progress since.

Part of the pressure is due to secondary supplies tipping the market balance into an oversupplied situation. This is allowing energy companies to fill demand gaps with cheap uranium in the spot market instead of signing new long-term deals with the primary producers.

The slow restart of Japan's nuclear fleet is also affecting the market.

A positive outlook

Japan shut down all of its nuclear reactors after the disaster in 2011. As a result, the country has been importing expensive LNG to produce electricity, but that is not financially sustainable, so Japan has begun the process of restarting its nuclear fleet.

Two reactors were restarted in 2015 and two more are expected to go back online in the first part of 2016. Another 20 are waiting to get the green light.

Secondary supplies in the uranium market are being used up and new primary supply might not be adequate to meet rising demand because miners have shelved or cancelled new projects due to the long slump.

Cameco says 65 new reactors are currently under construction around the globe, and the company expects at least 80 net new reactors to go into service in the next nine years.

Current uranium demand is about 155 million pounds per year, but that could jump to 230 million by 2024. If new supply doesn't come online fast enough, there could be a squeeze in the uranium market.

Cameco is ready

Cameco operates the industry's largest uranium mine and recently opened is long-beleaguered Cigar Lake facility. With most of the major investment already behind it, Cameco is in a good position to capitalize on an upturn in the market.

The company's position as a low-cost producer means investors could see a big boost to free cash flow when prices recover.

Risks

Cameco is in a nasty battle with the Canada Revenue Agency (CRA), which could keep a lid on gains in the stock price until the case is resolved. Cameco says it could be forced to pay at least $800 million if it loses.

Should you buy?

Cameco's stock has been sold down pretty hard. A surprise boost to Japan's restarts could provide a tailwind and any favourable decision on the CRA case would send the shares significantly higher. Uranium prices might stay depressed for some time, but the long-term outlook is positive.

If you have a contrarian style and are willing to wait, it might be worthwhile to start a small position in Cameco. The rebound will eventually come and it could begin in 2016.

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1. Editor's Choice

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Date
2025/07/28
Date Created
2015/12/22
Author
aswalker