



Cameco Corporation: What to Expect in 2016

Description

The past year was not a very fruitful one for **Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) investors. The Canadian-listed shares declined by more than 10%, while the American-listed shares fared even worse, declining by about a quarter.

Yet at the same time, there are some strong signs that uranium prices are on the rise. So does that mean Cameco is set for a big year?

Uranium demand should strengthen

As we all know, uranium prices crashed after the Fukushima nuclear disaster in 2011, and they haven't recovered since. But we may be about to turn the corner for a number of reasons.

First of all, China is making nuclear power a big part of its future, which is a part of its plans to reduce smog. The country plans to build seven new reactors per year out to 2030 at a cost of US\$100 billion. India is also planning major upgrades to its nuclear infrastructure; the country aims to generate a quarter of its power from nuclear power by 2050. Two years ago that number was just 13%.

Meanwhile, nuclear power is making a very slow comeback in Japan. The country has already restarted two reactors, with two more scheduled for early 2016. If public opposition can be overcome, then Japan stands to benefit immensely from a restart. The country had to spend an extra US\$270 billion on fossil fuel imports in the three years after the Fukushima disaster just to make up for the nuclear shortfall.

Uranium supply is on thin ice

With uranium prices below US\$35 per pound, new supply is very uneconomic, and that's creating a looming deficit. So far, power plants have been able to rely on excess inventories. But that strategy only lasts for so long.

Eventually, prices will have to rise to at least US\$60 per pound, and we could see some movement towards that number in 2016. This would bring welcome relief to Cameco and should provide a nice

boost to its share price. You just have to be patient.

The big question mark

Cameco's fortunes are largely determined by uranium prices, but there is one big company-specific event you have to watch out for.

It all dates back to 1999, when Cameco set up a subsidiary in Switzerland. The company has since been selling uranium to this subsidiary at depressed prices, then reselling it from Switzerland to the world market. This has allowed Cameco to book more profits in a lower-tax jurisdiction. According to the CRA, Cameco owes another \$820 million in taxes (about \$2 per Cameco share), when looking at the years 2003-2009.

A court date has been set for September 26, and this will be a critical event for Cameco and its shareholders. A judgement will likely not occur until the following year, but this could easily be the most significant event for Cameco in 2016.

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1. Investing
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