Is 2016 the Year Cameco Corporation Will Finally Recover?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) has been in the dumps for five years, and investors are wondering if the stock will ever return to its former highs.

Here's a look at the current situation and the catalysts that could put a tailwind behind the share price.

Struggling uranium market

The 2011 disaster in Japan hammered the uranium market, and prices have barely recovered after hitting lows in the back half of 2014.

With uranium stuck below US$40 per pound, many global producers are treading water or losing money, and most new developments have been delayed or permanently shelved.

Primary production has actually fallen, but supplies from the secondary market are keeping prices low. As a result, energy companies are reluctant to sign new long-term supply contracts because they can fill demand gaps with low-cost purchases in the spot market. Without the assurance of steady demand, uranium miners are reluctant to commit investments to new mines.

Winds of change

Japan has begun the process of restarting its nuclear facilities. Two reactors went back online in 2015, two more are expected to flip the switch in the first half of this year, and another 20 are waiting for approval.

This should start to breathe some life into the uranium market in the back half of 2016.

Secondary supplies are drying up and primary production might not meet demand in the coming years. Once energy companies see supplies starting to equal demand they will begin sign new long-term agreements and that should put a tailwind behind prices and spur new investments. The risk for power companies is that they will wait too long and that could lead to a period of undersupply.

Why?

There are 65 new reactors under construction, and Cameco expects more than 80 net new reactors to go online by 2024. Current demand is about 155 million pounds, and that number could reach 230 million in the next nine years. If miners can't get new projects up and running in time, there could be a supply squeeze on the horizon.

Cameco's advantage

Cameco is a low-cost producer. The company operates the world's largest uranium mine and is sitting on some of the planet's highest-grade reserves. Most of the company's major capital expenditures are completed, so the company is set up well to benefit from an improvement in demand and rising prices.

Risks

Cameco is battling the Canada Revenue Agency (CRA) over taxes owing on revenues generated by a European subsidiary. If Cameco loses the case it could be on the hook for more than $800 million.

Should you buy?

The CRA issue is well known, but it will remain an overhang on the stock until it gets resolved. A uranium rebound might not occur this year, but the long-term outlook for the industry is positive, and Cameco is ready to capitalize when better days arrive.

If you have some patience and a bit of cash on the sidelines, it might be worth considering a small position on any further weakness in the stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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