



With Shareholders Fed Up, Cameco Corporation Is Trading at a Discount

Description

Cameco Corporation ([TSX:CCO](#))([NYSE:CCJ](#)) shareholders must be losing their patience by now. After the price of uranium crashed in 2011, uranium prices have seemed unsustainably low but have yet to recover. And on Monday CEO Tim Gitzel admitted that a recovery may still take some time.

To put this in perspective, Cameco's stock actually trades for less than it did in the depths of the recession. So with investors so fed up, is now actually a time to step in?

Why uranium prices remain depressed

The bull case for uranium prices is fairly straightforward. At a spot price of US\$35 per pound, it is uneconomic to develop any new mines. Meanwhile, China has 24 nuclear power reactors under construction and has plans to build seven more each year to 2030, and Japan is slowly restarting its nuclear power sector. Longer term, nuclear power should play a key role in the fight against global warming.

Put it all together, and uranium could be in short supply, at least until the market rebalances. Given the cost of building new mines, that could easily mean a doubling of uranium prices.

Unfortunately for Cameco, supply has held up relatively well. Mines are costly to shut down, and no one wants to reduce production just to see competitors benefit. Secondary supply from uranium enrichment plants is also strong. Furthermore, there has been a massive inventory overhang. And more recently, weak currencies have lowered supply costs in countries such as Kazakhstan, Australia, and Canada.

On the demand side, the Japanese recovery has progressed at a much slower pace than previously anticipated. And in the United States we've even seen some reactors taken offline, thanks mainly to competition from cheap natural gas.

Why now may be the time to buy Cameco

Cameco is fully aware of these issues. The company even took a \$210 million impairment charge on

its Rabbit Lake operation.

But over the long term, the supply/demand fundamentals are very strong for uranium, and this isn't yet reflected in Cameco's share price.

To illustrate, the company trades at roughly 17 times adjusted earnings, even with uranium prices this depressed. So if you're willing to be patient, all you have to do is hold Cameco stock until the uranium market comes back into balance. That's not a bad bet to make.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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