Cameco Corporation: Will This Stock Ever Recover?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) is in a nasty five-year slump, and investors are wondering if the good old days will ever return.

Let's take a look at the current situation to see if the bottom could be in sight.

Uranium woes

Five years ago Cameco traded for more than $40 per share. Today you can pick it up for about $16.

What happened?

The nuclear disaster in Japan forced the shutdown of its entire nuclear fleet and sent uranium prices into a free fall. Few pundits expected the rout to last this long, and there is little indication that any significant price relief is in sight.

How bad has it been?

In early 2011 the spot price was above $70 per pound. By 2014 uranium fell below US$30 per pound and, aside from a few head fakes, the market has remained stuck below US$40 per pound; it recently slipped back below the US$35 mark.

Market outlook

Analysts and investors are surprised the market is taking so long to recover, especially given the positive signs in Asia.

Japan restarted two of its nuclear facilities in late 2015 and another at the end of last month. Another four sites are expected to get the green light by the end of March, and an additional four plants are in the final stages of the approval process.

In total, 23 reactors are under evaluation for restart.

Cameco believes the trend is positive given the successful restarts to date and the billions of dollars of investment going into the country's nuclear facilities.

China, India, and South Korea continue to expand their nuclear energy fleet, and Cameco has indicated that it expects as many as 80 net new plants to be in service by 2024.

Financials

Cameco has done a good job of controlling costs through the downturn, and the company is still turning an operating profit despite the weak market conditions. Adjusted Q4 2015 earnings came in at $151 million, or $0.38 per share.

The company expects to produce 30 million pounds of uranium in 2016. Consolidated revenue is forecast to fall by as much as 5% compared with 2015, and costs are projected to rise by 5-10%.

Capital expenditures are budgeted at $320 million for 2016, down from the $385 million spent in 2015.

CRA dispute

Cameco is in an ugly battle with the Canada Revenue Agency (CRA) regarding taxes payable on revenue generated through a foreign subsidiary. The company has received notices of reassessment for the 2003-2010 tax years. The company is also expecting notices of reassessment up to 2015.

The potential tax liability would be about $2.1 billion based on additional taxable income of about $7 billion.

A decision is not expected from the tax court before late 2017.

Should you buy Cameco?

The long-term outlook for the industry looks positive, and Cameco has one of the lowest-cost operations in the industry. The company is also sitting on some of the highest-grade resources on the planet.

However, spot prices remain under pressure with little indication of a rebound in the near-term, and the massive potential penalty from the CRA dispute will likely keep a lid on the stock's upside moves until the process is resolved.

If the market begins to recover and the CRA battle is resolved in Cameco's favour, the stock could rally significantly, but investors will have to be patient, and there is more downside risk if things don't work out that way.

I would look for other opportunities right now.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date
2025/09/29
Date Created
2016/02/26
Author
aswalker